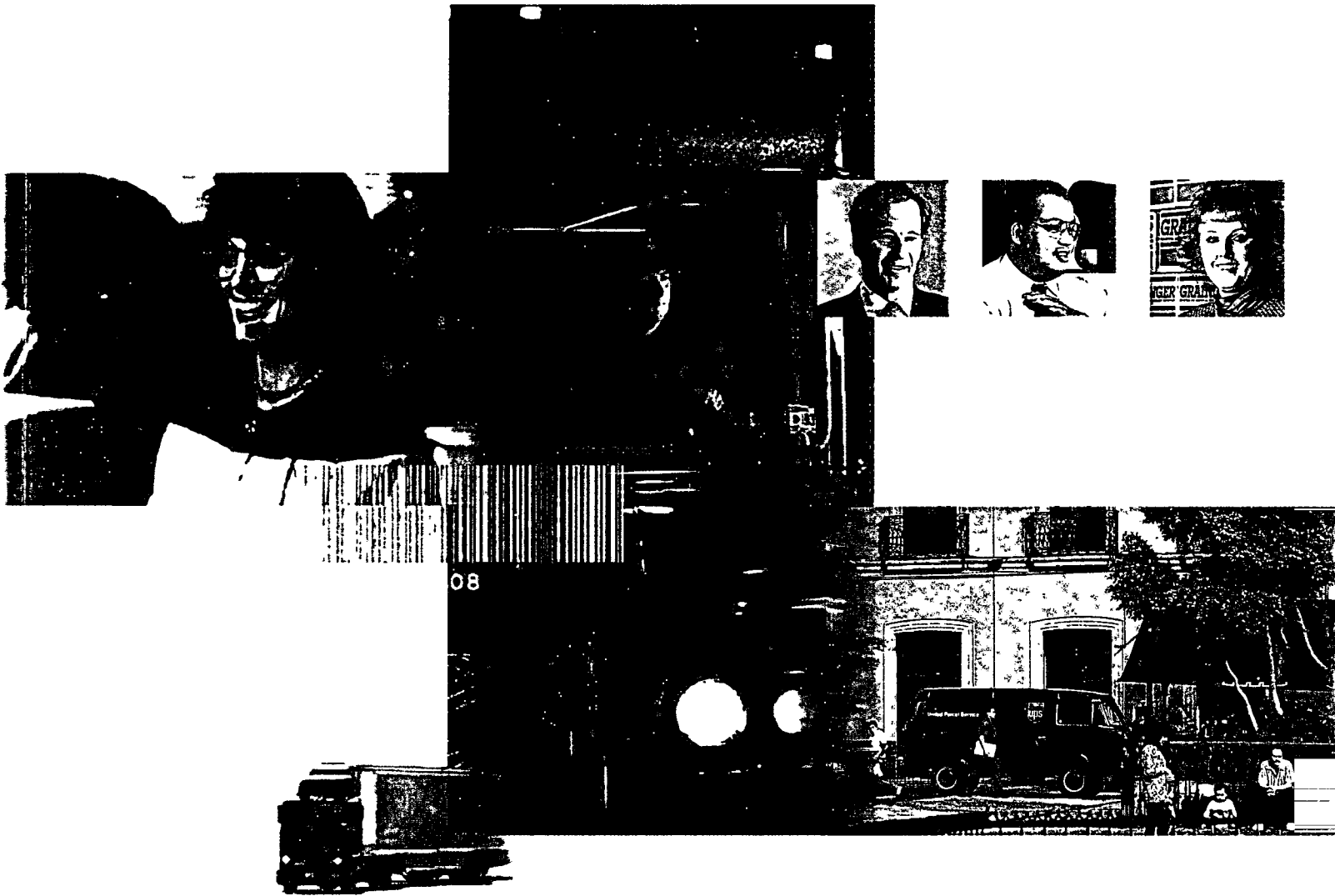
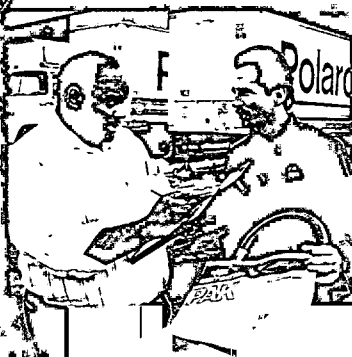


UNITED PARCEL SERVICE

1992 REPORT TO SHAREOWNERS



A strategy at work



"I know that UPS is a better organization today because our customers—our partners—have demanded much more of us. In fact, we have transformed UPS and taken on a new mission, because our customers told us they wanted more from us. And the process continues."

Our transformation has made our company stronger, more energetic and more nimble than many people thought possible. We have regained the youthful enthusiasm that drove our first messengers as they delivered packages 85 years ago. I think the most important product of change is renewal."

UPS CHAIRMAN OZ NELSON

NATIONAL INDUSTRIAL TRANSPORTATION

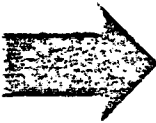
LEAGUE CONFERENCE, NOVEMBER 18, 1992

CONTENTS

1	Foreword
4	Letter to the Reader
6	UPS: A New Mission
8	UPS: A New Vision
12	UPS: A New Strategy
14	UPS: A New Culture
16	UPS: A New Leadership
20	UPS: A New Future
24	UPS: A New Partnership
26	UPS: A New Commitment
28	UPS: A New Challenge
39	UPS: A New Opportunity



Letter to Shareowners



Each year seems to present its own particular set of challenges and opportunities. Our role is, of course, to overcome the challenges and take full advantage of the opportunities. We made considerable progress in both areas in 1992.

Revenues reached a record \$16.5 billion. ~~Management would have done the same were it not for our decision to apply to 100 percent of all charges to accommodate a new accounting standard. This standard requires companies to accrue for future retirement benefits costs, other than pension benefits, as a liability instead of when they are actually paid out.~~ This accounting standard is more fully explained in the financial statements. In addition to increasing 1992 operating expense by \$65 million, the new standard resulted in a one-time charge that, in its cumulative effect, reduced our net income by nearly \$249 million to \$516 million.

Our growth continued to be challenged by our competitors' aggressive marketing and by a weak economy, both in the United States and internationally. We met these challenges in several ways. In a move that should benefit us even more this year, we strengthened our already fast-growing UPS Hundredweight ServiceSM with enhancements that encourage shippers to use us for their multiple-package shipments to take advantage of our service features. UPS GroundSaverSM volume also increased significantly. Both of these services offer lower rates for customers who meet specified volume and other shipment requirements.

We took advantage of a trend by major shippers to consolidate the number of carriers they use. They do this to gain leverage for improved pricing and services with select carriers and to simplify their distribution systems. We gained a substantial amount of new business by establishing customized contracts with a number of shippers. Our competitors, of course, are following a similar strategy.



CONTINUED

Revenue

BILLIONS

92	\$16.5
91	\$15.0
90	\$13.6
89	\$12.4
88	\$11.0

Arkansas district manager Linda Adam works on the district's 1993 business plan with her staff (l.-r.): Ray Johnson, Alan Sage, Dan Zalenko and Cecil Jones. Districts are taking a far more comprehensive approach to their plans, following guidance received in a 1992 Business Planning Workshop.



Earnings per Share

DOLLARS

92	\$1.87
91	\$1.74
90	\$1.95
89	\$1.07
88	\$1.17

Introducing UPS GroundTracSM service last June was both a challenge and an opportunity. Electronically tracking ground packages involved a much greater commitment of resources than our high-tech competitors faced, simply because of the difference in volume. We had to commit to it, however: Our customers wanted immediate information about the status of their packages, and we needed to nullify this advantage held by our competitors.

To date, the results of that launch have been very gratifying. We've seen strong growth since we started the service last June. This year, we upgraded our tracking services. UPS TotalTrackSM now equals or exceeds our competitors' capabilities and has greater territorial coverage.

Technology, plus our people's dedication to providing even higher levels of service, helped sustain growth in our air services. Although revenue from UPS Next Day Air[®] packages was below our plan, the growth of UPS Next Day Air Letter service outpaced the industry. UPS 2nd Day Air[®] package volume recovered from a decline and was boosted by the introduction of UPS 2nd Day Air Letter service last year.

Challenge and opportunity also characterize our international service. Our growth in this area has reached a level that now deserves special reporting in our financial statements.

Earnings as a Percent of Revenue



Our international air service is on target and still aiming for a late-1994 break-even. Our biggest disappointments came in a few of our foreign domestic operations. Germany, though still profitable, missed its profitability targets due to a weak economy and tough competition.

The Italy and Spain operations did not show the desired progress in reducing their domestic losses and will continue to get full attention this year. While losses in the United Kingdom are substantial, we expect that the addition of volume from our new acquisition, Carryfast Ltd., will dramatically reduce pickup and delivery costs in that country in 1993.

While the overall losses in our international operations represent a lot of money, we are satisfied that we're on the right track. For the last two years, we have cut our losses per package by about 50 percent.

Building our international network has been a huge investment: The alternative was to stay in place and risk letting our competitors pass us by. With all of its challenges and uncertainties, the international marketplace will reward only those who are willing to take risks. We have every confidence that the risk will pay off for many years into the future.

I would like to conclude as I began, by talking about opportunities. What makes me so optimistic about our company's future is that I know there is so much more potential in our organization. We are just getting started.

Our growing technological strength should enable us to provide *whatever* we or our customers need *when* it's needed. But more potent than that are our people's growing technological capabilities. It has been said that success in the 1990s will be driven by a corporation's ability to learn faster than its competitors – at all levels, not just the chief strategists. We are doing that now. Through our Business Planning Workshop last year, our district staffs learned more about the marketplace, about how to research local business opportunities, and how to develop and implement a strategic plan. In effect, for the United States alone, we have moved from one centralized business planning group to 71.

We are pushing sales and marketing decision-making out to our sales teams by giving them the tools to make decisions. Our customers will receive quicker responses to their requests through professionally and locally developed proposals.

Through the 'Delivering Our Future' program, we are gaining further proof of how valuable our drivers and other employees can be in developing our business. This year should present even more opportunities for our people to contribute to the success of their company.

People instinctively want to learn. We are introducing new and improved training programs and aids to create additional opportunities to learn, so our people can use what they learn to help us grow. That's what "Delivering Our Future" to all of our constituencies – employees, customers, shareowners and communities – is all about.

Kent C. Nelson

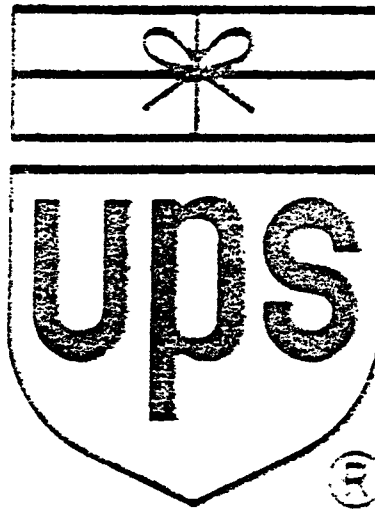
Kent C. Nelson
Chairman and Chief Executive Officer
April 1, 1993

A strategy at work

Our annual Shareowners Report last year described a company in transition, one that had just launched a new corporate strategy. The report was titled, "A Strategy in Motion."

This year's report portrays a more customer-focused company that is working hard on its strategy. You will hear terms that seemed only remotely related to our business until recently. Terms such as: partnership with customers; information technology; customized contracts; global distribution network; logistics solutions; flexibility; decentralized decision-making.

These terms are now part of our language. They are also terms our customers use. And, more and more, they



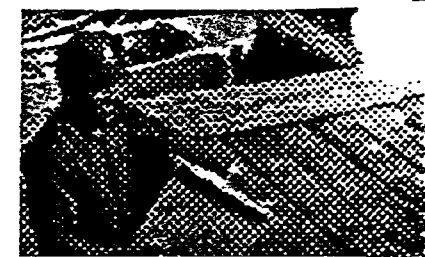
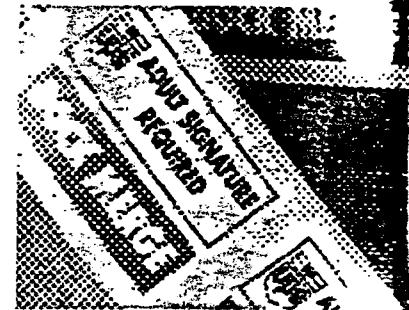
use them when they talk about us. This section breaks out seven ways UPS has changed and how those changes are perceived by seven customers.

The specific number of changes featured is not significant. There are many other aspects of "the new UPS." In reality, the seven selected changes blend together into a single cohesive company identity. But if you ask customers what changes they see in UPS, they will often cite one or more of those we have selected to feature.

We know we are changing, as we become more responsive to customers' needs. But, more important, our customers are beginning to see those changes.

92	2,941
91	2,886
90	2,860
89	2,778
88	2,685

UPS Delivery Volume
IN MILLIONS OF PACKAGES



1

CUSTOMER-CARRIER

partnerships strengthen BOTH



2

HELPING CUSTOMERS

expand globally

3

Customizing

LEADS TO NEW SERVICES



4

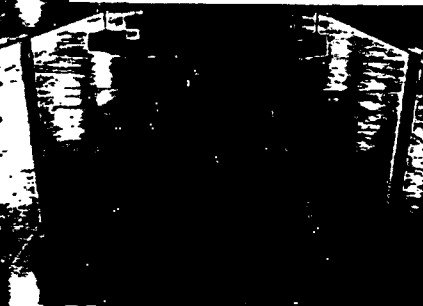
Responsiveness

MAKES CUSTOMER PARTNERSHIPS WORK

5

Flexibility

OPENS DOORS TO NEW VOLUME



6

TOTALTRACK CAPS YEAR OF

technological advances

7

Employees respond

TO THEIR ROLES IN COMPANY STRATEGY

“In the past, you had one way of handling our business: your way,” says John DuBiel, transportation director for Revlon Inc. “Now you’re many times more flexible, and you not only care about Revlon, you care about our customers. I’ve seen a 180-degree turn in UPS.”

DuBiel points to our efforts to ensure that all packages in a Revlon shipment arrive at a customer’s location on the same day. A project manager we assigned to Revlon coordinates its needs with all UPS operations that serve the company’s U.S. plants. “Because of what he’s doing, I don’t have to call a hundred

UPS locations to make sure things happen,” DuBiel says.

Revlon uses UPS GroundTrac for all shipments and, from scans of its own bar code label, receives a weekly service report that is used to bill customers. GroundTrac also provides pickup dates, which Revlon uses to prove to customers that it has met its shipment quota on time. We occasionally make a weekend pickup to help them meet a deadline.

As we have done with Revlon, we began establishing customized service contracts with many customers last year. These agreements benefit both parties. UPS gains more of a customer’s shipments, and the customer gets special services and pricing.

Our contract with Citicorp, for example, provides the worldwide financial services company with direct links to UPS for package tracking, billing and requesting UPS On Call Air Pickup service for any of its customers throughout the United States. We assembled a multi-functional team to focus on Citicorp’s systems and service requirements and trained our people to handle all special needs.

These partnerships work most effectively when customers share distribution data, consolidation plans and new product



Customer-carrier

**partnerships
strengthen
both**



BELOW: Kohl Collier, UPS project manager assigned to work with Revlon, and East Carolina senior account executive Larry White discuss performance reports with Revlon's national traffic manager John DuBiel (also pictured below left).

LEFT: Bob Gill prepares Revlon packages for shipment via UPS GroundTrac. FACING PAGE: Revlon makes 70 percent of all lipstick sold in the U.S.



launches with us, so that we can help them develop efficient logistical systems. The logistics process cements partnership relationships.

Our growing logistics capabilities blossomed in 1992. We sent more than 400 of our top managers and others from various functions to a week-long logistics conference developed for UPS by Michigan State University. For more than a year, we have been creating logistics positions in every region and some districts,

Our logistics initiative also resulted in the creation of UPS Worldwide Logistics, Inc. This new entity offers a consultative service to develop customized solutions for shippers' distribution needs.

As companies reach out to more distant markets, either to obtain supplies or to distribute their products, an effective logistics system will play a strategic role in helping them achieve a competitive advantage at a reasonable cost. It's estimated that companies spend more than \$1.5 trillion annually on logistics, two-thirds of which could be turned over to distribution services. Ninety percent of U.S. companies now perform logistics in-house, but experts predict a five-to-ten percent yearly increase in the use of outside services.

UPS Worldwide Logistics enjoys several advantages over similar services offered by our competitors. In addition to our expertise in air and international operations, we have decades of experience in ground services. We can also call on the support of our diversified businesses – route scheduling systems from Roadnet Technologies, communications systems from II Morrow, vehicles from UPS Truck Leasing, refrigerated transport from Marpac and site selection from UPS Properties, for example.

We can provide warehousing services through UPS Inventory Express, now part of Worldwide Logistics, and through the start of a distribution center chain in Europe. Located near our national air hub in Louisville, Ky., Inventory Express stores and distributes merchandise via our air service for customers who want faster turnaround of orders.

Guided by logistics planning, a growing number of our customers are consolidating their distribution network around UPS as their core carrier. This trend clearly supports our newest advertising tag line, introduced during this year's college football bowl games, "The package delivery company more companies count on."

Polaroid is counting on UPS's European distribution network to ensure that its new Vision camera is a success in its worldwide debut on that continent. Teaming with Polaroid International traffic manager Dave Fernandes to make that happen are Mark Weathersby and Bernie Leshner of UPS's Northeast region Corporate Accounts. Polaroid's latest instant camera is its smallest and features a picture previewer and in-camera storage of prints.



With the lowering of trade barriers in the European Community's 12 countries on Jan. 1, 1993, Polaroid Corp. international traffic manager Dave Fernandes sees "tremendous opportunity," he says, "to bring greater efficiency to our distribution system."

Now that it's easier to move goods between countries, Polaroid plans to centralize its European distribution system in one warehouse in the Netherlands. "Eighty percent of our customers are within 500 miles of there," Fernandes explains.

He's counting on UPS to be his major carrier in this new distribution system. "It's a lot easier to load one carrier's trucks than 10 carriers'," he says. "But, more important, UPS offers the services we need," he says, "and you deliver to the thousands of small retail stores we serve as well as the mass merchants."

Half of Polaroid's sales are outside the United States. The dependability of our Asia Pacific operations also enabled Fernandes to eliminate the need for a warehouse in Taiwan. In Mexico City, UPS people helped Polaroid establish a distribution site to facilitate new business in that country.

"I see real change in your level of cooperation, your willingness to discuss pricing and more active marketing in general," Fernandes says.

Close, long-term relationships between shippers and carriers are both an obstacle to and a hope for UPS's success in international markets. As we work out logistical solutions and sophisticated services for an increasing base of customers, these companies' competitive advantages may force entrenched businesses to consider alternative transportation services such as UPS.

For companies seeking new marketing opportunities in Europe, UPS offers an established distribution network with the broadest geographical coverage, multiple services and expertise in international trade. Because of our fully integrated pan-European ground and air delivery, linked to a global operation, UPS is well-positioned to be the leading package delivery company in Europe.

The final links in this European network were locked into place with the acquisitions of three carriers: Beemsterboer in the Netherlands, a country through which nearly a fourth of European shipments flow; Austria's Star Air Parcel Service, whose expertise in serving Eastern Europe will become more

important as that market develops; and Carryfast Ltd., a large express parcel service in the United Kingdom.

These acquisitions enable us to control a European shipment from pickup to delivery, unlike some competitors that turn a package over to another carrier when it arrives in Europe.

Most international package freight today is handled by freight forwarders and small carriers. Market trends indicate growing movement from the forwarders to integrated carriers like UPS. Integrators provide a broader range of services. As has happened in the United States, when a company's customers see they can get faster service, they will ask for it.

Helping customers

**expand
globally**



Driver Martijn Biesheuvel
prepares to make deliveries
along an Amsterdam canal.

UPS's broad geographical coverage and other features are already attracting some of this shifting volume. To become more competitive, we are rapidly strengthening other capabilities, such as: logistical services, information-based services and flexibility in billing and pricing. We are doing this largely through a new corporate function, International Systems, which launched PRISM: Program for Rapid development of International Systems for Market leadership.

The PRISM group, which will grow to over 200 people in the next three years, is building a comprehensive, multi-purpose information system intended to change the way we and our customers do business in the future. The group is set to launch a



number of its 40 planned projects this year. Much of its effort is directed at replacing our well-respected International Shipments Processing System with a system capable of providing even more advanced information services.

Our global logistical capabilities were enhanced with the creation of UPS Worldwide Logistics (described earlier). Supporting that initiative is the establishment of our first bonded multi-user European Distribution Center. Following the opening of this warehousing service in the Netherlands, we plan to set up several more centers across Europe during the next five years to give customers immediate access to our ground and air network, as well as a less expensive alternative to opening their own warehouses.

UPS Customers

RECEIVING AUTOMATIC DAILY
PICKUP CALLS AT YEAR-END

92	1,209,000
91	1,119,000
90	1,054,000
89	1,007,000
88	933,000

Some services that have proven attractive to U.S. customers were extended to other countries in 1992. In Germany, we began offering UPS Hundredweight Service to all shippers. Early in the year, Hundredweight and ground services were expanded for U.S. shippers to cover every address in all 10 Canadian provinces. In September, we began electronically tracking ground packages, in addition to air shipments, between the United States and Canada. Later, we also began offering a money-back guarantee for on-time arrival of U.S. air express shipments to major metropolitan areas of Canada.

The U.S. Department of Transportation selected UPS over Federal Express in awarding an all-cargo route between the

United States and the Mirabel airport in Montreal, Quebec. The Montreal route enables us to offer next-day delivery to additional points in eastern Canada, as well as later pickups and earlier deliveries.

Transborder ground service began as a pilot program between selected U.S. and Mexican cities in 1992. UPS enjoys a competitive advantage in launching transborder service because we are the only carrier with wholly-owned delivery operations in both countries.

While implementing information systems and other competitive services, we will continue to strengthen our sales and logistics teams during the next year. Other priorities target key cost elements in each region and efficiency in transborder operations.



We saw significant growth in shipments from Singapore (above) and other Asia Pacific countries and within Mexico. Transborder ground movement of packages began between selected U.S. and Mexican cities in 1992. In the Netherlands (below), we purchased the Dutch delivery company of Beemsterboer.





Customizing leads
to
new
services

Ted Wait (far right portrait) founded his multi-million-dollar Gateway 2000 company on his father's Iowa farm. It was one of our first major customized contracts, which now include Gateway's growing international volume. Meeting with traffic manager Paul Ibanez (2nd from l.) are UPSers Pat Guilbert (l.), Barry Curtis and Iowa district manager Emil Kuzmann.



and Information Services people, an electronic data interchange (EDI) was established so that the customer could receive daily transmissions about shipments designated for this service.

Extensive customer research led to the development of a unique service, customized for a broader segment of shippers. That service, called UPS 3 Day Select, opens new options for shippers. Unlike ground services, 3 Day Select offers a money-back guarantee of third-business-day delivery, along with the ability to verify deliveries on the day of delivery.

Deferred service has been the fastest growing segment of the air express market. Our 3 Day Select service introduces another alternative. It meets customers' needs for a faster, more reliable delivery service than long-distance ground options at a lower cost than air express services.

The ability to provide same-day delivery verification resulted from the introduction of an advanced tracking system (described later in this report).

We have also customized our UPS Next Day Air and UPS 2nd Day Air Letter services to provide more convenience and competitive pricing for qualifying customers. The new

UPS Prepaid Letter option lets customers purchase UPS Next Day Air and 2nd Day Air Letters in advance.

Depending on the number purchased, the Prepaid Letter may qualify for special pricing. With the elimination of billing complications, our air services are easier to use by a company's field offices, salespeople or other employees traveling, customers returning contracts and numerous other situations. In this way, use of the Prepaid Letter helps a company control the cost of air services.

Other products designed to make our air services more convenient to use are being offered. They include smaller labels for smaller packages and, as a test in six districts, new packaging options: a small, flat box, a padded envelope and a window envelope – all identified with UPS Next Day Air markings.

To one degree or another, our customers participated in the development of these and other new services – from Dock Merge to UPS 3 Day Select to the packaging options. These close relationships with customers benefit them whenever we can respond to their needs; we also benefit whenever the relationships yield a profitable new service.

"Street Smart" sounds like a reference to UPS drivers. In fact, it refers to a continuous survey program instituted by American Greetings to keep in touch with consumer needs and preferences.

A companion program, "Smart Response," relates more to UPS's role in the card company's business. This software program enables American Greetings to capture point-of-sale data through computer linkups with its major store accounts. American Greetings uses the sales data to keep the stores stocked with its products – delivered, of course, by UPS.

The key word that describes American Greetings' relationship with its customers is "responsive." That is also the term the

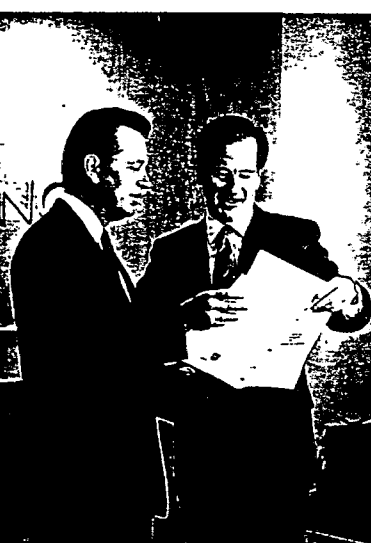
company's materials management director, Jim Edler, chooses to characterize what he calls "the new UPS."

"Your new technological capabilities allow us to dramatically upgrade the kind of information we control at our distribution centers," Edler says.

The best example of our responsiveness, in his opinion, is a program we developed to train American Greetings route salespeople to use UPS Authorized Return Service (A.R.S.). As the first in the industry to permit stores to return unsold cards, American Greetings wanted to make A.R.S. work. A.R.S. offers added convenience to stores in returning merchandise.

We expanded A.R.S. last year to any business in the contiguous United States. The service is offered for interstate and intrastate returns. We also made it easier to use. A.R.S. packages can now be given to any UPS driver or dropped off at one of our customer counters. As an added value, more information was designed into the new bar-coded label.

Responding to customer requests, we began offering collect and third-party billing for UPS Hundredweight Service. The new billing options allow Hundredweight shipping charges to be billed to a receiver's or third party's account, enabling them to better control inbound transportation costs. A new electronic

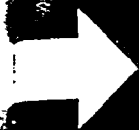


ABOVE: North Ohio district manager Steve Jensen and American Greetings' Jim Edler review the results of a training program we developed to teach the card company's route salespeople how to use our Authorized Return Service.

RIGHT: Ken Galaida's delivery helps keep Stephanie Mackey's card store stocked with American Greetings products.



4



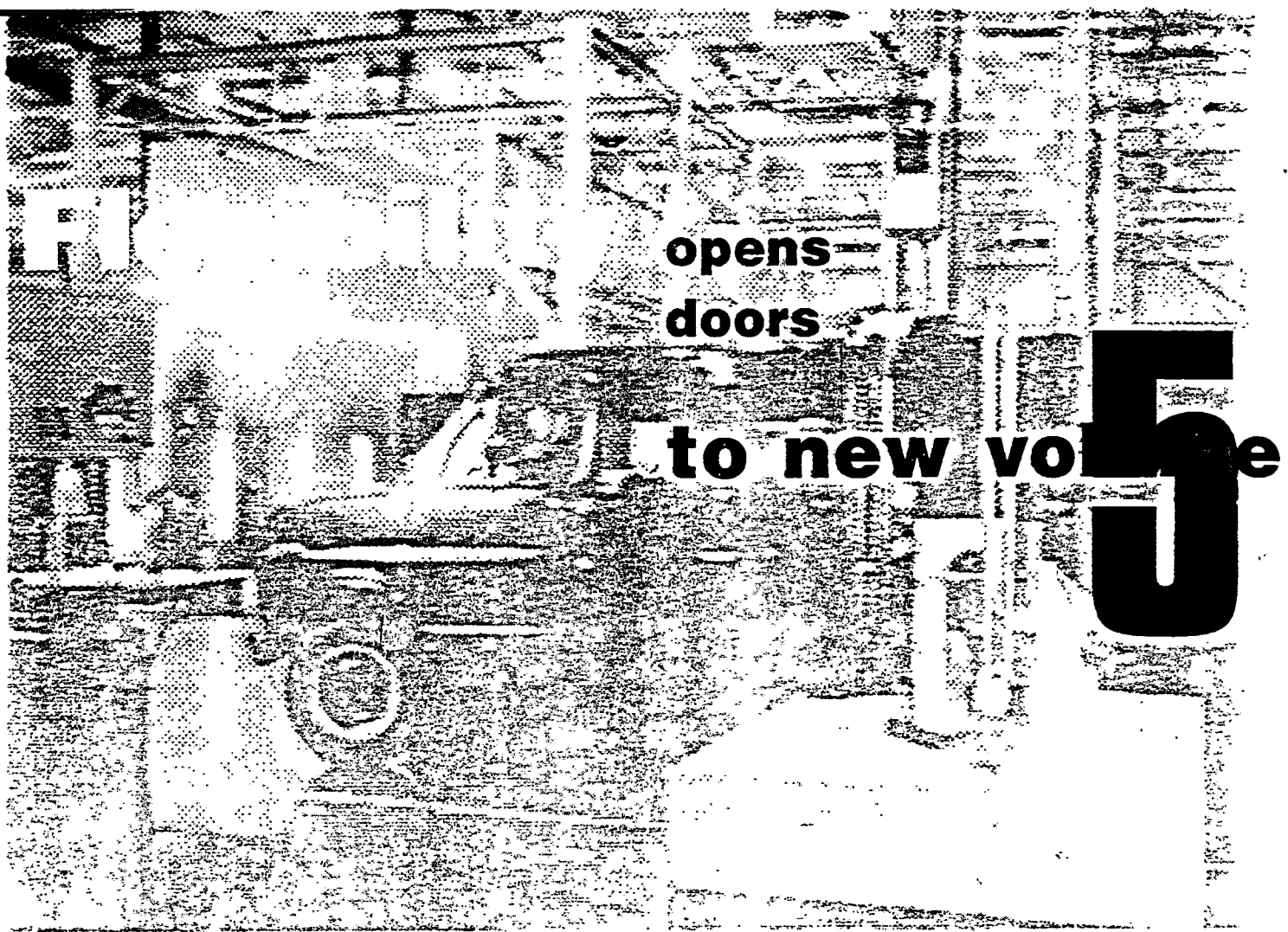
Responsiveness **makes** **customer** **partnerships work**

tracking option, offered at the same time, enables customers to not only track individual packages, but also track or trace an entire ground Hundredweight shipment.

These enhancements help us to compete more effectively for heavier-weight shipments carried by less-than-truckload (LTL) services. Our analysis shows that up to \$6 billion are spent annually on LTL shipments that could be handled by us. The lack of collect or third-party billing options had prevented us from gaining that volume. Giving us an additional edge, UPS tracking services surpass any currently offered by competitors for this business.

Like American Greetings, we have made greater efforts to stay close to our customers through regular surveys. Last year, we visited 25,000 customers to learn about their requirements, plans and ideas. We also conduct large-scale quarterly customer surveys to research the need for new services and how to design them to meet that need. We are testing a new means of monitoring – by region, district and service offering – the level of satisfaction of our services.

Through this research, we will increase our ability to anticipate and respond to customers' needs, as well as ensure we meet or exceed their service expectations. In addition to surveys, we are studying how to restructure our sales organization, so that our account executives – especially those assigned to national U.S. accounts – will have the time to be more accessible and responsive to their customers.



**opens
doors**

to new volume

n America's farm belt, Caterpillar Inc. employees and everyone else start their day early. If a machine part has been ordered for overnight delivery, Caterpillar expects to receive it when the plant doors open at 7 a.m. Until recently, our aircraft did not stop at Peoria, Ill., the nearest airport to Caterpillar. It does now. And, through our package center team in that area, we get the job done. That's the agreement we've made with this construction machinery giant, and we're happy to do it.

Another responsibility brought by this customized contract involves handling as much as 7,000 pounds of Caterpillar packages a day. In two of the huge complexes the company operates in the Peoria area, our drivers make several pickups a day. The last one, at about 10 p.m., is to pick up air packages and immediately take them to the airport.

Our delivery routine is probably the most unique service. In one plant, which occupies over 100 acres under one roof, driver Gale Randall drives through the facility, making as many as 16 delivery stops along the way.

"We found that when UPS was making just one delivery stop at our mailroom, it took our people another day or two to deliver the packages internally," says Caterpillar contract

administrator Jack Hippen. "It was important to us to get these packages delivered sooner; that's why we used UPS in the first place. Our job is to build engines, yours is to deliver – that's the way we looked at it."

The first meeting to discuss this change two years ago was not productive, Hippen recalls, adding, "But you came back and said, 'Hey, service is our business,' and it was done. That's the kind of flexibility needed to be a truly quality service."

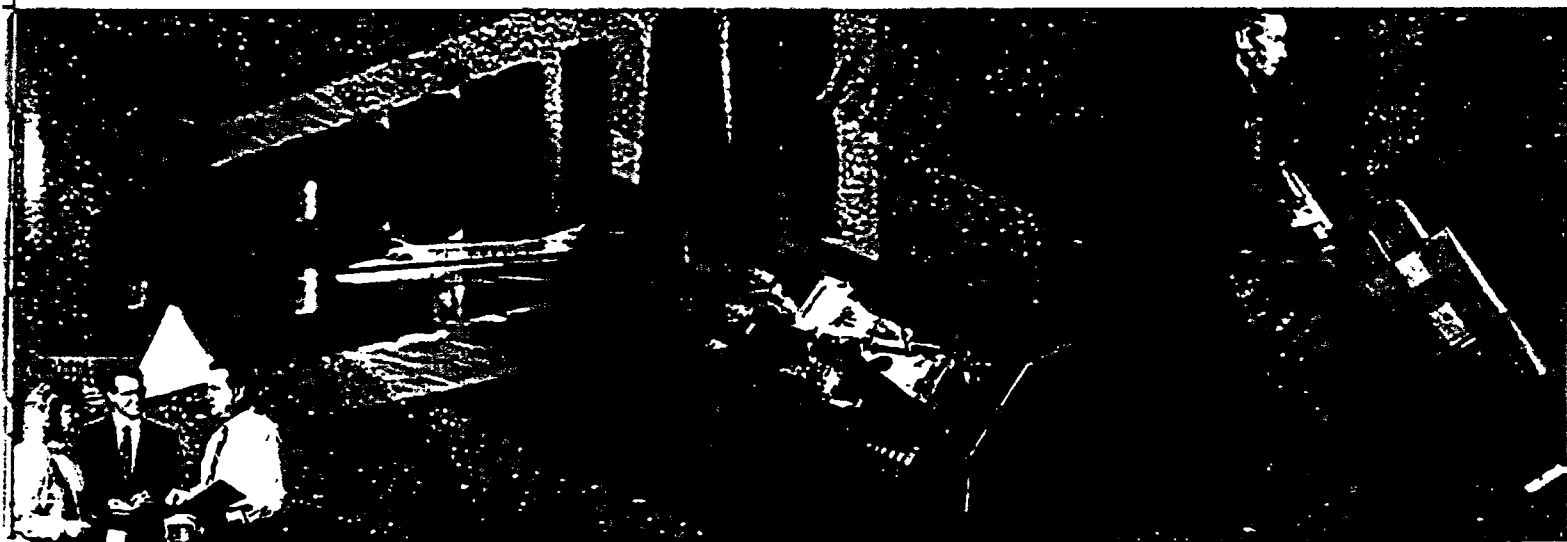
A New York City traffic manager last June selected us over a competitor with a lower bid for the expressed reason that he "liked working with the new, flexible UPS." He immediately turned over to us a shipment of 40,000 packages of promotional materials for doctors' offices throughout the United States.

Similar flexibility led to 15,000 Hundredweight packages a month from an Illinois shipper. He cited our willingness to make multiple pickups of loads generated by his company's 24-hour operation and process them during both our local night and day sorts.

It was more than a change in attitude that prompted us to find greater flexibility in our operations. New computerized systems helped – systems that enable our hub and feeder teams to manage the daily changes required in their operations.

A Load Planning system was introduced last summer to help reduce inefficient feeder runs, freeing tractor trailers and drivers to serve customer needs as they arise. Another new hub and feeder program makes it easier to examine our network for opportunities to improve ground service time from two days to one.

To aid package center operations, our industrial engineers developed a program that uses data from the DIAD delivery record to facilitate quick adjustments to driver dispatch plans – especially useful in meeting UPS Next Day Air delivery commitments. A much more comprehensive information system is being developed to help center managers run their operations more efficiently.



Peoria, Ill. drivers Terry Trapp (in pg. 16 photo) and Gale Randall (above) drive through parts of the sprawling Caterpillar plant to make several daily delivery and pickup stops. Meeting with Caterpillar contract administrator Jack Hippen (r.) are UPS account executive Kathleen Cooley and center manager Mark Dickson.

Our Air Group's Contingency department addresses the changing demands of overnight service and, thanks to a recently enhanced system, changing weather conditions. Air operations must have the flexibility to adapt to new services such as UPS 3 Day Select.

Late pickups, customized contracts with a few customers and the introduction of Air Hundredweight Service have caused changes in air operations. Also, to keep our service commitments, the 2nd Day Air fleet will handle a significant share of volume generated by 3 Day Select.

Because of the high costs of operating an airline, planners must anticipate future needs far in advance.

The opening of a new West Coast regional air hub in Ontario, Calif. gives us more flexibility in handling future air volume in that area and U.S. Far East shipments. The \$96 million facility has the space and sorting capacity to accommodate growth.

Our recent order for 30 new Boeing 767 freighter aircraft, with options to buy 30 more, is another example of anticipating future needs. Projected growth rates of air volume will demand additional aircraft. The size, range and power of the 767 enable it to operate effectively for either U.S. or transoceanic flights. Delivery of the first 767 is scheduled for 1995. This purchase will increase our fleet to 197 jet aircraft.

The multi-million-dollar project to replace the three engines on each of our 727-100 aircraft with new, quieter engines will add to our flexibility. Although the primary intent is to meet federal noise standards in the years ahead, the re-engining enables us to send a 727 to airports where local noise curfews prevent some aircraft from landing.

Lower cost "hush kits" are airlines' most common choice for meeting noise standards; we are the only carrier to make a substantial commitment to a full re-engining. We felt that the efficiency of the new engines, plus the many more years of service we expect from these aircraft, justified the higher cost.

A pilot program for staffing a Letter Center outside a New York City train station enables us to answer customers' questions about our services. Charles Daniel assists a customer in using the service.



A late evening pickup at an office building is one more sign of UPS's added flexibility in serving customer needs.

UPS Employees

AS OF SEPTEMBER 30

92	265,000
91	256,000
90	246,800
89	237,700
88	219,400

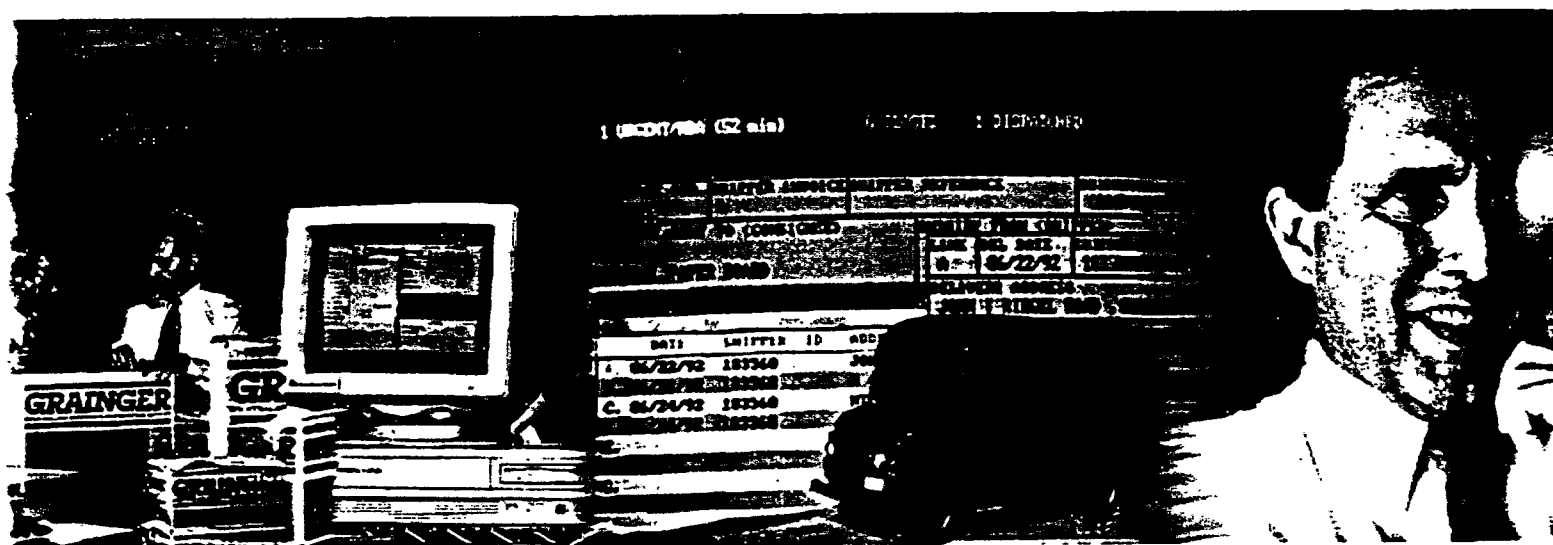
Recent approval by the Federal Aviation Administration (FAA) allows us to land 757s at qualified airports under conditions when the visual range is reduced to no more than 700 feet of runway. This authority, granted because of our successful operation of these aircraft, keeps our arrivals on schedule during adverse conditions that we encounter almost weekly at one airport or another around the world.

Communications technology improvements have enabled us to expand the territory served by UPS On Call Air Pickup in selected metropolitan areas. In those areas, pickup requests can now be assigned to the delivery driver already in the area or an air express driver, depending on which of them can most efficiently satisfy the customer's pickup time request.

Meeting special customer needs requires flexibility in office functions as well as in operations. It's only a matter of time, however, until responding creatively becomes second nature.

W. W. Grainger, Inc.'s customers can order any of 42,000 industrial products – from a fluorescent light to a conveyor motor – by zipping through an electronic catalog, and expect to receive the item the next day, by ground, for only a local-zone delivery charge. To make that many products that accessible, at an acceptable cost, Grainger requires a lot of product, market and customer information.

The Chicago-based company and its network of over 300 distribution sites count on its suppliers and primary delivery service, UPS, to meet that challenge. "We're excited about all of the information technology you're offering lately," says director of transportation Bill Meehan. "We're still learning how to use GroundTrac to our best



We continue to expand installations of our MaxiShip system, which helps W.W. Grainger, Inc. and other customers expedite the preparation of packages for UPS shipment. UPS regional Corporate Accounts manager Irv Volk (l.) discusses with Grainger's Bill Meehan how he may want to use our latest service enhancements.

TotalTrack

caps

year

of

PURCHASE DATE		PURCHASE REFERENCE		SHIPPER TEL. NO.	
SHIPMENT DATE		SHIPMENT FROM (SHIPPER)		SHIPPER NO.	
LINE NO.	DATE	SHIPPER NO.	SHIP NO.		
1	06/22/92	183568	28		
DELIVERY ADDRESS					
JOHN F. RIEGEL ROAD, RICHMOND					
PREVIOUS TRACKED					
10/19/92 (DB)					
CONSIGNEE					
MT MISER					
TRACKING ID					
121835680508110577					
PKG TYPE STATUS					
TRIPPER					
PRIORITY					

advantage, and you've followed that quickly with TotalTrack. We want to become familiar with it when our customers start asking for the service."

UPS supplies Grainger with an extensive data base of proof-of-delivery information, and our MaxiShip systems streamline their shipment processing. "You have made great efforts over the past year to understand our business," Meehan says.

Adds Janet Kemp, regional transportation manager for Grainger: "Like you, we've become more flexible in our operations so that we could customize some services for our national accounts. And what we do for them often means that we have to ask you to change something."

Although there are numerous other examples, the most meaningful technological advances for the majority of our customers involves our tracking services. These advances became possible following the final deployment of the Delivery Information Acquisition Device (DIAD) early last year. Our drivers use their DIADs to record information about deliveries, including the recipient's signature, and to scan bar-coded labels

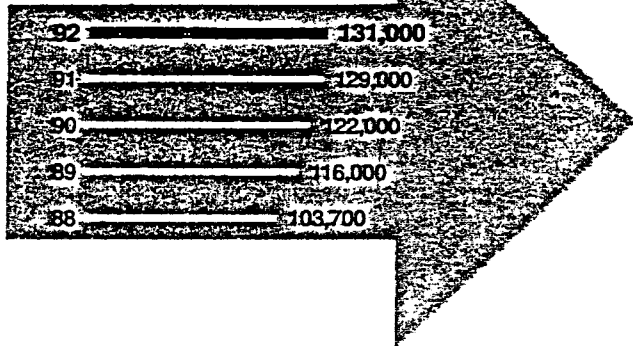
for tracking purposes. Until recently, that information was not available until the day after delivery.

For a slightly higher rate, UPS GroundTrac enabled customers to track ground as well as air shipments. GroundTrac is the only electronic package tracking service available for ground shipments to all addresses in either the U.S. or Canada.

In the first six months it was offered, GroundTrac usage far exceeded projections. The computer and apparel industries are major users, but many customers request GroundTrac because it provides information they need.

UPS Vehicles

NUMBER OF PACKAGE CARS,
TRACTORS AND TRAILERS
AT YEAR-END



A truly higher level followed within months. Even before GroundTrac was introduced, we began contracting with the first of 55 cellular-telephone companies to support an in-vehicle communications system. At the same time, mechanics began installing the system's computerized equipment: a DIAD Vehicle Adapter (DVA), which captures the DIAD's delivery information, and a cellular modem and antenna to transmit it to our central computer center in New Jersey.

This technological upgrade enables U.S. customers to receive same-day verification of deliveries within minutes after they're completed. UPS TotalTrack offers this capability for our entire family of tracking services: our Next Day Air and

The device that enables us to provide customers with delivery verification on the day of delivery is called a DIAD Vehicle Adapter. It's an in-vehicle communications terminal, into which a driver inserts his or her DIAD (delivery record) after using the DIAD to scan information from a bar code on a delivered package.

2nd Day Air services. GroundTrac and the newest, UPS 3 Day Select. Customers can access tracking information 24 hours a day, seven days a week, by telephone or through the UPS MaxiTrac software system if they are equipped with it.

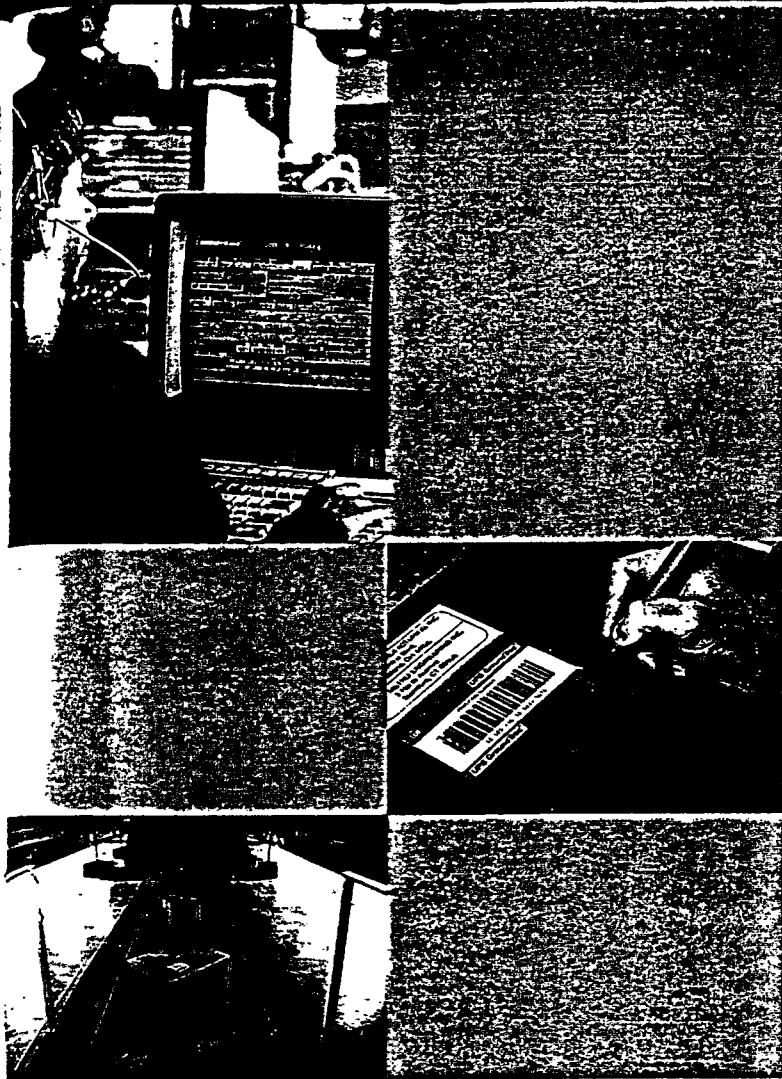
The cellular services are linked by our recently completed global telecommunications network, called UPSnet. The linkup is the first nationwide cellular data transmission service.

Acquiring this capability came at a high cost: \$350 million for the research, development and deployment of DIADs, \$150 million for the in-vehicle equipment and cellular network services and \$50 million for UPSnet. These advances put us in a position, however, to offer information services our customers are asking for now and those they will want in the future.

The next phase of in-vehicle communications will enable drivers to receive messages from their centers on their DIAD screens. These messages might alert them to service needs in their areas, such as customers who need a later pickup.

UPS's tracing service also benefited from DIAD. Delivery data captured through DIADs is stored by the Delivery Information Automated Lookup System (DIALS). This computerized system speeds the work of tracing people in





TOP: New features in the Delivery Information system enable Raleigh, N.C. tractor Helen Bessard to quickly find a record of any delivery.

MIDDLE: Packages are marked at both the pickup and delivery to show that they have been scanned.

BOTTOM: Now being tested is an over-the-belt camera that reads coded labels no matter which way they face passing below it.

to-locate records. Since the last DIALS equipment was installed in mid-1992, our people have been able to answer over 50 percent more tracing requests per hour. Speedier access to information translates to better service for customers.

Moving from day-to-day operations to the laboratory, our Research & Development (R&D) division is working on a number of projects involving information technology. The lab's projects range from improved bar codes to the next generation of machine readable codes – the two-dimensional UPScodeSM – to high-speed cameras, mounted over a conveyor belt, that can read both types of codes.

Just as we have labs that test packaging quality, R&D tests the quality of bar codes printed by customers and vendors, following first-of-its-kind procedures that R&D people developed.

Technology that has become more important with customized contracts is our MaxiShip system, whether it's a software package for a customer's own computer or our more advanced system that includes the equipment – computer, scales, scanner and printer. In 1992, nearly twice as many customers were using MaxiShip systems.

With the help of our Customer Automation group in

Information Services, the system easily accommodates the rollout of new services and rates. Largely because the system eases the processing of shipments for UPS, we have seen considerable volume increases from customers after MaxiShip installation.

Customer response to GroundTrac demonstrated the payback potential for our heavy investments in technology, but we are looking farther ahead – toward the creation of entirely new business opportunities that will open up because of our growing capabilities. We also know that the services our customers want from us in the future may change dramatically. We have never been more confident of our ability to respond to those needs.

Its appearance is deceptive, just as its products – artificial lures – are to smallmouth bass and other fish.

Operating out of a small, plain corrugated tin building – no name over the door, no carpet on the floor – Southern Pro Lures in Brookfield, Ark. doesn't want to sell you a couple of lures. It wants to wholesale millions of them to big retailers such as Cabelas, Wal-Mart and some you never heard of in Canada and Japan.

Owner Fred Coggins has been successful at doing just that, expanding his revenue from \$3 million to over \$20 million in just 12 years. He gives UPS a lot of credit for his success. He gives special credit to his driver, Jeb Spencer, for turning him on to UPS Hundredweight.

"As you've expanded over the years, I've been able to expand my market," says Coggins. "Your Hundredweight service has helped to keep my prices competitive, and that's helped me grow. You benefit from that growth, too, of course. I guess that's why you're able to offer reduced rates for the service – it comes back in greater volume."

Jeb keeps Coggins informed of new services. Coggins uses our air and international services as well as Hundredweight. "I recently used your Saturday Delivery service to rush a sample box to my West Coast salesman, who wanted to show them to a Japanese distributor visiting that weekend. Now you and I have a little more steady business in the Far East."



Ten of Jeb's 17 sales leads last year resulted in new volume. Drivers and other UPSers learned a lot last year about what customers are looking for, how we stack up against each competitor and how they can help the company become more successful. They discussed these topics at Communications Meetings, Service Involvement and KORE group sessions and as part of a new program called "Delivering Our Future."

Drivers and other employees who have daily contact with customers participated in a half-hour session of this program each day for a week. Management and all other employees attended a single one-hour session. Companywide, we devoted more than 82,000 hours to "Delivering Our Future," and sessions for most part-time employees continued into this year.

Judging from responses to our annual employee opinion survey, about three-fourths of all employees felt the program accomplished its communications goals. They agreed that the program helped them to understand the company's Mission and Strategy, business challenges, services and competition.

Increased understanding about our business seemed to generate more sales leads. To tap the full value of drivers'



TOP: Vicki Noethling from UPS's Corporate Headquarters tutors an Atlanta student as part of our new Neighbor-to-Neighbor volunteer program.



MIDDLE: UPS Chief Executive Officer Kent "Oz" Nelson visits a United Way-funded day care center in Duluth, Ga. He began serving last year as a member of the United Way of America's Board of Governors.



BOTTOM: A counselor at The Bethany House in Toledo, Ohio, entertains children residing at this shelter for abused mothers and their families. The facility received \$100,000 from The UPS Foundation through our region/district grant program.

organizations involved in adult literacy or food distribution to the nation's hungry received over \$1.8 million from The Foundation.

Another 83 organizations received nearly \$2.5 million of Foundation support through the region and district grant program, in which employees research and select candidates for grants. Employees pledged \$23.3 million to United Way in the 1992 campaign, and nearly 2,300 UPSers contributed over \$600,000 to educational and cultural organizations – a sum that doubled with UPS matching funds.

The Foundation set up a special fund to match employee contributions to UPSers who suffered property damage from Hurricane Andrew. This fund totaled over \$360,000.

We became involved in the Somali tragedy through AmeriCares, a relief organization we have often supported. A UPS aircraft and crew flew 85,000 pounds of medical supplies to the starving, war-torn nation.

On the environmental front, we continued to expand the number of vehicles and locations involved in testing compressed natural gas (CNG) as a low-emission fuel. At year-end, approximately 200 package cars in six cities were using CNG. CNG fueling stations have been installed at three of those locations.

We have also expanded our recycling efforts. Recycled paper is specified for most printing work, including such packaging products as UPS Next Day Air envelopes. Recycling of some form is practiced at virtually all UPS facilities. It includes cardboard and other paper products, wood pallets, and used oil and the reuse of plastic small bags.

Recognition we received for our community and environmental efforts is noted on the "1992 Honors" page that appears on the reverse side of the back cover.

Headquarters, the Southeast region and Georgia district operations and UPS Truck Leasing Inc.'s corporate office. In just a few months, the program enlisted 500 people, including a few spouses, from throughout the state. Many of them did maintenance work or tutoring at inner-city schools and packed and loaded items for a food and toy drive. We plan to expand the Neighbor-to-Neighbor program to other UPS locations this year.

Closely related to that effort is our involvement in the Atlanta Project, which was established by former President Jimmy Carter as a model for how to solve inner-city problems in any city. The UPS Foundation and the Annie E. Casey Foundation, which UPS founder Jim Casey and his brother and sister established in memory of their mother, pledged \$3 million to the Atlanta Project and a senior manager to work with the program.

School-business partnerships are helping to improve the quality of public school education in Louisville, Ky. as well as Atlanta. UPS and two other corporations contributed one million dollars each to pave the way and support statewide public school reform in Kentucky.

Through their involvement with UPS Foundation grants, many employees have become volunteers with organizations that received this funding. Last year, 50

MISSION: COMMUNITY SERVICE

UPS and its principal charitable arm, The UPS Foundation, responded to a wide range of critical human needs in 1992 – from housing, hurricane relief and hunger in America to starvation in Somalia, recycling and other environmental concerns.

Along with initiatives in these areas, we began a significant shift in our philosophy on giving – from a primarily financially driven position to one involving also the commitment of people.

We have always known that UPS owes its success to our people's commitment to excellence. When our employees approach community service with the same attitude, as we have seen them do, they can be a powerful force for change. To encourage and create opportunities for volunteerism, we formed a Community Services function within the corporate Contributions department.

To gain experience in fostering volunteerism, the Community Services function launched a Neighbor-to-Neighbor program in Georgia, home of UPS Corporate



Fred Coggins ships enough of these little fishing lures to benefit from using UPS Hundredweight Service.

LEFT: A group of Raleigh, N.C. drivers discuss with center manager Mike Elliott a point made at their "Delivering Our Future" meeting.

They are (l.-r.): Jimmy Cash, Harriet McNeill, Mark Emerick and Mike Richardson.

knowledge about their areas, this year's "Delivering Our Future" program will team them up with account executives for a day making sales calls. Any full-time delivery or trailer pickup driver can spend a day team-selling, if they wish, as the final session of this year's program. As an incentive, productive sales leads earn points that can be applied to free selections from the "Spirit of UPS" catalog.

Our Service Involvement program, now in its 20th year, will become even more important as we try to raise our already high service quality to even higher levels. Participation increased again in 1992. More than 240,000 employees participated in 37,000 KORE group meetings. The nearly 3,900 KORE groups developed and implemented projects that contributed in very measurable ways to improving service.

The "lure" attracting all of this involvement, to put this report in terms our customer Fred Coggins can appreciate, is world leadership in package distribution. Employees know that achieving this goal will be rewarding in many ways, particularly in terms of greater opportunities and greater job security and satisfaction.

7 Employees respond to their roles in Corporate Strategy

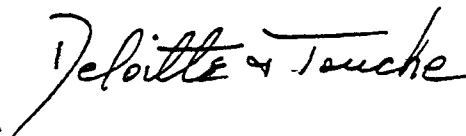
BOARD OF DIRECTORS AND SHAREOWNERS
UNITED PARCEL SERVICE OF AMERICA, INC.
ATLANTA, GEORGIA

We have audited the accompanying consolidated balance sheets of United Parcel Service of America, Inc. and its subsidiaries as of December 31, 1992 and 1991, and the related consolidated statements of income, shareowners' equity, and cash flows for each of the three years in the period ended December 31, 1992. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with generally accepted auditing standards. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, such consolidated financial statements present fairly, in all material respects, the financial position of United Parcel Service of America, Inc. and its subsidiaries at December 31, 1992 and 1991, and the results of their operations and their cash flows for each of the three years in the period ended December 31, 1992 in conformity with generally accepted accounting principles.

As discussed in Note 5 to the consolidated financial statements, in 1992 the Company changed its method of accounting for post-retirement benefits other than pensions to conform with Statement of Financial Accounting Standards No. 106.



Atlanta, Georgia
February 10, 1993

CONSOLIDATED BALANCE SHEET
DECEMBER 31, 1992 AND 1991

(000'S OMITTED EXCEPT PER SHARE AMOUNTS)

	1992	1991
ASSETS		
CURRENT ASSETS:		
Cash and short-term investments.....	\$ 133,398	\$ 287,273
Accounts receivable	1,092,379	1,000,852
Materials, supplies and prepaid expenses	564,262	509,432
Deferred income taxes	44,819	167,067
Common stock held for stock plans	333,089	305,225
TOTAL CURRENT ASSETS	2,167,947	2,269,849
PROPERTY, PLANT AND EQUIPMENT:		
Vehicles	2,583,753	2,508,512
Aircraft	2,502,896	2,140,244
Land	609,693	604,895
Buildings	1,224,442	1,144,869
Leasehold improvements	1,275,662	1,166,929
Plant equipment	2,098,880	1,936,712
Construction-in-progress	212,135	208,726
	10,507,461	9,710,887
Less accumulated depreciation	4,135,667	3,579,700
	6,371,794	6,131,187
OTHER ASSETS	498,076	457,525
	\$ 9,037,817	\$8,858,561
LIABILITIES AND SHAREOWNERS' EQUITY		
CURRENT LIABILITIES:		
Accounts payable	\$ 769,822	\$ 789,693
Accrued wages and withholdings	832,793	814,028
Income taxes payable	87,603	109,857
Other current liabilities	416,042	383,636
TOTAL CURRENT LIABILITIES	2,106,260	2,097,214
LONG-TERM DEBT	862,378	830,634
ACCUMULATED POSTRETIREMENT BENEFIT		
OBLIGATION, NET	468,663	-
DEFERRED TAXES, CREDITS AND OTHER LIABILITIES	1,880,084	2,057,561
SHAREOWNERS' EQUITY:		
Preferred stock, no par value, authorized 200,000,000 shares, none issued	-	-
Common stock, par value \$.10 per share, authorized 900,000,000 shares, issued 595,000,000 in 1992 and 616,000,000 in 1991	59,500	61,600
Additional paid-in capital	241,852	238,475
Retained earnings	3,394,289	3,502,540
Cumulative foreign currency adjustments	24,791	70,537
	3,720,432	3,873,152
	\$ 9,037,817	\$8,858,561
SHAREOWNERS' EQUITY PER SHARE	\$ 6.25	\$ 6.29

SEE NOTES TO CONSOLIDATED FINANCIAL STATEMENTS.

STATEMENT OF CONSOLIDATED INCOME
YEARS ENDED DECEMBER 31, 1992, 1991 AND 1990

(000'S OMITTED EXCEPT PER SHARE AMOUNTS)

	1992	1991	1990
REVENUE	\$16,518,621	\$15,019,830	\$13,606,344
OPERATING EXPENSES:			
Wages and employee benefits	9,707,793	8,832,297	8,213,950
Other	5,533,044	4,936,277	4,340,217
	<u>15,240,837</u>	<u>13,768,574</u>	<u>12,554,167</u>
Operating profit	1,277,784	1,251,256	1,052,177
OTHER INCOME AND (EXPENSE):			
Interest income	22,433	27,572	22,278
Interest expense	(41,918)	(51,794)	(71,999)
Miscellaneous, net	10,996	(9,969)	(2,572)
	<u>(8,489)</u>	<u>(34,191)</u>	<u>(52,293)</u>
INCOME BEFORE INCOME TAXES AND CUMULATIVE EFFECT OF A CHANGE IN ACCOUNTING PRINCIPLE	1,269,295	1,217,065	999,884
INCOME TAXES	504,223	516,895	403,108
INCOME BEFORE CUMULATIVE EFFECT OF A CHANGE IN ACCOUNTING PRINCIPLE	765,072	700,170	596,776
CUMULATIVE EFFECT OF A CHANGE IN THE METHOD OF ACCOUNTING FOR POSTRETIREMENT BENEFITS OTHER THAN PENSIONS	(248,905)	-	-
NET INCOME	<u>\$ 516,167</u>	<u>\$ 700,170</u>	<u>\$ 596,776</u>
PER SHARE AMOUNTS:			
Income before cumulative effect of a change in accounting principle	\$ 1.29	\$ 1.14	\$ 0.95
Cumulative effect of a change in the method of accounting for postretirement benefits other than pensions	(0.42)	-	-
NET INCOME PER SHARE	<u>\$ 0.87</u>	<u>\$ 1.14</u>	<u>\$ 0.95</u>

SEE NOTES TO CONSOLIDATED FINANCIAL STATEMENTS.

STATEMENT OF CONSOLIDATED SHAREOWNERS' EQUITY
YEARS ENDED DECEMBER 31, 1992, 1991 AND 1990

(000'S OMITTED EXCEPT PER SHARE AMOUNTS)

	COMMON STOCK SHARES	STOCK AMOUNT	ADDITIONAL PAID-IN CAPITAL	RETAINED EARNINGS	CUMULATIVE FOREIGN CURRENCY ADJUSTMENTS	TOTAL SHAREOWNERS' EQUITY
Balance, January 1, 1990	161,870	\$16,187	\$296,371	\$3,244,830	\$31,347	\$3,588,735
Net income	-	-	-	596,776	-	596,776
Dividends paid (\$.48 per share)	-	-	-	(291,540)	-	(291,540)
Gain on issuance of common stock						
held for stock plans	-	-	8,427	-	-	8,427
Exercise of stock options	-	-	(12,454)	-	-	(12,454)
Foreign currency adjustments	-	-	-	-	35,431	35,431
Redemption of common stock	(5,500)	(550)	-	(317,882)	-	(318,432)
Balance, December 31, 1990	156,370	15,637	292,344	3,232,184	66,778	3,606,943
Net income	-	-	-	700,170	-	700,170
Dividends paid (\$.48 per share)	-	-	-	(287,131)	-	(287,131)
Gain on issuance of common stock						
held for stock plans	-	-	3,517	-	-	3,517
Exercise of stock options	-	-	(11,186)	-	-	(11,186)
Foreign currency adjustments	-	-	-	-	3,759	3,759
Redemption of common stock	(2,370)	(237)	-	(142,683)	-	(142,920)
Common stock split 4 for 1	462,000	46,200	(46,200)	-	-	-
Balance, December 31, 1991	616,000	61,600	238,475	3,502,540	70,537	3,873,152
Net income	-	-	-	516,167	-	516,167
Dividends paid (\$.50 per share)	-	-	-	(293,225)	-	(293,225)
Gain on issuance of common stock						
held for stock plans	-	-	10,838	-	-	10,838
Exercise of stock options	-	-	(7,461)	-	-	(7,461)
Foreign currency adjustments	-	-	-	-	(45,746)	(45,746)
Redemption of common stock	(21,000)	(2,100)	-	(331,193)	-	(333,293)
Balance, December 31, 1992	595,000	\$59,500	\$241,852	\$3,394,289	\$24,791	\$3,720,432

SEE NOTES TO CONSOLIDATED FINANCIAL STATEMENTS.

STATEMENT OF CONSOLIDATED CASH FLOWS
YEARS ENDED DECEMBER 31, 1992, 1991 AND 1990

(000'S OMITTED)

	1992	1991	1990
Cash flows from operating activities:			
Net income	\$ 516,167	\$ 700,170	\$ 596,776
Adjustments to reconcile net income to net cash provided from operating activities:			
Depreciation and amortization	662,031	667,009	608,256
Postretirement benefit obligation	468,663	-	-
Deferred taxes, credits and other	(27,516)	177,297	166,830
Changes in assets and liabilities:			
Accounts receivable	(91,527)	(172,040)	(74,911)
Materials, supplies and prepaid expenses	(54,830)	(26,004)	(184,878)
Common stock held for stock plans	(27,864)	25,345	(70,603)
Accounts payable	(19,871)	113,916	99,075
Accrued wages and withholdings	18,765	(52,846)	23,590
Income taxes payable	(22,254)	108,043	(98,742)
Other current liabilities	28,609	57,132	24,543
Net cash from operating activities	1,450,373	1,598,022	1,089,936
Cash flows from investing activities:			
Capital expenditures-net	(929,261)	(1,044,698)	(1,160,281)
Other asset receipts and (payments)	(44,602)	252	(127,225)
Net cash (used in) investing activities	(973,863)	(1,044,446)	(1,287,506)
Cash flows from financing activities:			
Proceeds from borrowings	36,318	-	23,180
Repayment of borrowings	(36,440)	(4,261)	(19,639)
Redemption of common stock	(333,293)	(142,920)	(318,432)
Dividends paid	(293,225)	(287,131)	(291,540)
Other transactions	3,377	9,766	435,106
Net cash (used in) financing activities	(623,263)	(424,546)	(171,325)
Effect of exchange rate changes on cash	(7,122)	10,833	35,431
Net increase (decrease) in cash and short-term investments	(153,875)	139,863	(333,464)
Cash and short-term investments:			
Beginning of year	287,273	147,410	480,874
End of year	\$ 133,398	\$ 287,273	\$ 147,410
Cash paid during the period for:			
Interest, net of amount capitalized	\$ 41,784	\$ 46,331	\$ 66,086
Income taxes	\$ 363,503	\$ 360,119	\$ 330,848

SEE NOTES TO CONSOLIDATED FINANCIAL STATEMENTS.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
YEARS ENDED DECEMBER 31, 1992, 1991 AND 1990

Note 1 SUMMARY OF ACCOUNTING POLICIES

**BASIS OF FINANCIAL STATEMENTS
AND BUSINESS ACTIVITIES**

The accompanying consolidated financial statements include the accounts of United Parcel Service of America, Inc. and all of its subsidiaries (collectively "UPS"). All material intercompany balances and transactions have been eliminated.

UPS concentrates its operations in the field of transportation services: primarily domestic and international package delivery. Revenue is recognized upon delivery of a package.

CASH EQUIVALENTS

Cash equivalents (short-term investments) consist of highly liquid investments that are readily convertible into cash. The carrying amount approximates fair value because of the short-term maturity of these instruments.

COMMON STOCK HELD FOR STOCK PLANS

UPS accounts for its common stock held for distribution pursuant to awards under the UPS Managers Incentive Plan and the UPS Stock Option Plan as a current asset. The liability for the amount of the annual managers incentive award is included in Accrued Wages and Withholdings. Common stock held in excess of current requirements is accounted for as a reduction in Shareowners' Equity.

PROPERTY, PLANT AND EQUIPMENT

Property, plant and equipment are carried at cost. Depreciation (including amortization) is provided by the straight-line method over the estimated useful lives of the assets, which are as follows: Vehicles—9 years; Aircraft—12 to 20 years; Buildings—10 to 40 years; Leasehold Improvements—lives of leases; Plant Equipment—8 1/3 years.

COSTS IN EXCESS OF NET ASSETS ACQUIRED

Costs in excess of net assets acquired are amortized over a 10-year period using the straight-line method.

INCOME TAXES

Deferred income taxes result primarily from the use of accelerated depreciation methods allowable for income tax purposes, certain differences in asset lives adopted for income tax purposes, temporary differences between the accrual and payment of employee compensation and investments in leveraged leases. UPS adopted Statement of Financial Accounting Standards No. 96, "Accounting for Income Taxes," in 1987.

The benefit of investment tax credits is amortized over seven years except investment tax credits from the investment in leveraged leases, which is amortized over the life of the lease.

CAPITALIZED INTEREST

Interest incurred during the construction period of certain property, plant and equipment is capitalized until the underlying assets are placed in service, at which time amortization of the capitalized interest begins, straight-line, over the estimated useful lives of the related assets. Capitalized interest was \$26,500,000, \$21,000,000 and \$4,000,000 for 1992, 1991, and 1990, respectively.

Note 2 LONG-TERM DEBT

Long-term debt as of December 31, consists of the following:

(000'S OMITTED)	1992	1991
8.375% debentures, due April 1, 2020.....	\$700,000	\$700,000
Industrial development bonds, Philadelphia Airport facilities due December 1, 2015	100,000	100,000
Installment notes, mortgages and bonds	38,441	8,141
Investment properties - nonrecourse mortgages.....	28,853	23,612
	<u>\$67,294</u>	<u>\$31,753</u>
Less current maturities	4,916	1,119
	<u>\$862,378</u>	<u>\$830,634</u>

The debentures are not subject to redemption prior to maturity and are not subject to sinking fund requirements. Interest is payable semi-annually on the 1st of April and October. The industrial development bonds bear interest at either a daily, variable, or fixed rate. The average interest rates for 1992 and 1991 were 2.5% and 4.1%, respectively. The installment notes, mortgages and bonds bear interest at rates of 5.4% to 11.5%.

The aggregate annual principal payments are summarized as follows:

YEAR (000'S OMITTED)	AMOUNT
1993	\$ 4,916
1994	9,971
1995	1,966
1996	704
1997	675
After 1997	<u>849,062</u>
	<u>\$867,294</u>

Based on the borrowing rates currently available to the Company for long-term debt with similar terms and maturities, the fair value of long-term debt is approximately \$921,000,000 as of December 31, 1992.

Note 3 COMMON STOCK SPLIT AND
PER SHARE DATA.

During 1991, the UPS Board of Directors approved a resolution to split the outstanding Common Stock of the Company, four for one. The split was effected September 6, 1991 by distributing three additional shares of Common Stock for each share held as of the close of business on August 21, 1991. All appropriate references to shares and per share amounts have been retroactively restated in these financial statements to reflect this split.

Per share amounts related to income are based on 595,000,000 shares in 1992, 616,000,000 shares in 1991 and 625,481,200 shares in 1990, as restated, and include Common Stock Held for Stock Plans.

Note 4 LEGAL PROCEEDINGS AND COMMITMENTS

UPS is a defendant in various lawsuits which arose in the normal course of business. In the opinion of management, none of these cases are expected to have a material effect on the financial condition of UPS.

An agent for the United States Internal Revenue Service ("IRS") has asserted in a report that UPS is liable for additional tax and possible penalties for the 1984 tax year. The assertion is based in large part on the theory that UPS is liable for tax on income of Overseas Partners Ltd. ("OPL"), a Bermuda company, which has reinsured excess value package insurance purchased by UPS's customers from unrelated insurers. The adjustments sought by the agent relating to package insurance are based on a number of inconsistent theories and range from \$7.9 million of tax to \$45.5 million of tax and estimated penalties.

Management believes that the IRS positions are without merit and the eventual resolution of this matter will not have a material impact on the Company. No assessment has been made by the IRS with respect to 1984, and the Company is pursuing a protest before the IRS's Appeals Division against the imposition of any additional tax liability. The matter is awaiting a hearing before the IRS Appeals Division. The IRS has not proposed assessments for years subsequent to 1984, although the IRS may take positions similar to those in the report described above for periods after 1984.

UPS leases certain operating facilities and aircraft, the majority of which are from related parties, including various UPS employee benefit plans. These leases expire at various dates through 2022, and two of them require additional amounts based upon usage. Total aggregate minimum lease commitments are as follows:

YEAR (000'S OMITTED)	AMOUNT
1993.....	\$ 212,195
1994.....	189,463
1995.....	162,353
1996.....	129,343
1997.....	99,960
After 1997.....	1,011,081
	<u>\$1,804,395</u>

UPS maintains a credit agreement with a consortium of banks that provides a revolving credit facility of \$750,000,000 until May 31, 1995. At December 31, 1992, there were no outstanding borrowings under the facility. As of December 31, 1992, UPS has outstanding letters of credit totaling approximately \$503,272,000 issued in connection with routine business requirements.

At December 31, 1992, UPS had commitments outstanding for capital expenditures under purchase orders and contracts of approximately \$1.8 billion, of which approximately \$552 million is expected to be spent in 1993. Additionally, during February 1993, UPS committed to the purchase of 30 Boeing 767 aircraft in the approximate amount of \$2.5 billion of which approximately \$41 million will be spent in 1993.

Note 5 EMPLOYEE BENEFIT PLANS

UPS maintains the UPS Retirement Plan. The Plan is a defined benefit plan that provides employees annual defined retirement benefits. The Plan is non-contributory, and all employees who meet certain minimum age and years of service are eligible, except those covered by certain multi-employer plans provided for under collective bargaining agreements.

The Plan provides for retirement benefits based on average compensation levels earned by employees during certain years of service preceding retirement. In addition, UPS provides certain medical benefits for retired employees. The retirement plan's assets consist primarily of publicly traded stocks and bonds. The actual earnings on these assets were \$124,661,000, \$168,027,000 and \$140,000 in 1992, 1991, and 1990, respectively. UPS's funding policy is consistent with relevant federal tax regulations. Accordingly, UPS contributes amounts deductible for federal income tax purposes.

Pension expense, consisting of various component parts, and certain assumptions used during the years ended December 31, is as follows:

(000'S OMITTED)	1992	1991	1990
Current year's earned benefit	\$ 81,173	\$ 49,143	\$ 44,864
Interest on projected benefit obligation	107,646	77,511	64,053
Expected earnings on pension plan assets	(99,772)	(84,026)	(69,426)
Amortization of unrecognized benefit obligation:			
Net obligation at transition date	5,203	5,203	5,203
Effect of plan benefit amendments	11,741	956	904
Net amortization of unrecognized investment gains and changes in actuarial assumptions and experience	-	(491)	(2,099)
Provision for pension expense	<u>\$105,991</u>	<u>\$ 48,296</u>	<u>\$ 43,499</u>
Expected long-term rate of earnings on plan assets	9.5%	9.5%	9.5%
Weighted average discount rate	8.25%	8.5%	9.0%
Rate of increase in future compensation levels	5.0%	5.5%	5.5%

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

The following schedule reconciles the funded status of the Plan with certain amounts included in the balance sheet as of December 31:

(DOLLARS OMITTED)	1992	1991
Projected benefit obligation:		
Accumulated benefits computed using present salary levels:		
Vested.....	\$ 896,400	\$ 692,728
Nonvested.....	192,376	26,799
	1,088,776	719,527
Additional benefits computed using projected salary levels.....	399,947	370,467
Total projected benefit obligation.....	1,488,723	1,089,994
Pension plan assets.....	1,286,458	1,083,583
Difference.....	(202,265)	(6,411)
Unrecognized net investment gains and changes in assumptions used to compute projected benefit.....	(8,180)	(31,426)
Unrecognized net benefit obligation at transition date.....	59,838	65,041
Unrecognized projected benefit obligation arising from amendments to the retirement plan.....	187,617	14,683
Prepaid pension cost.....	\$ 37,010	\$ 41,887

The Plan was amended during 1992 to reflect certain enhancements to benefits provided to participants under the Plan. The amendment to the Plan resulted in an increase in the projected benefit obligation at December 31, 1992 of \$184,674,000 and an increase in pension expense for the year ended December 31, 1992 of \$42,400,000.

UPS also contributes to several multi-employer pension plans for which the above information is not determinable. Amounts charged to operations for contributions to pension plans other than the Plan described above were \$428,282,000, \$402,911,000 and \$376,885,000 during 1992, 1991, and 1990, respectively.

UPS sponsors defined benefit postretirement medical plans that provide health care benefits to its retirees who meet certain eligibility requirements and who are not covered by multi-employer retirement plans. Generally, this includes employees with at least 10 years of service who have reached age 55 and will be receiving benefits from one of the Company's retirement plans. The Company has the right to modify or terminate certain of these plans. Historically, these benefits have been provided to retirees on a non-contributory basis; however, effective January 1, 1992, the Company made modifications that will likely result in cost sharing in the future for certain of its retirees.

In the past, UPS has generally expensed the costs of these benefits on a current, "pay as you go" basis. During 1992, UPS adopted the provisions of the Financial Accounting Standards Board Statement of Financial Accounting Standards No. 106, "Employers' Accounting for Postretirement Benefits Other Than Pensions." This Statement requires accrual of postretirement benefits, which include health care benefits, during the years an employee provides service.

The effect of adoption resulted in a one-time "catch-up" charge during 1992 of approximately \$248.9 million, after tax, representing the cumulative effect of the change as of January 1, 1992. In addition to the cumulative effect, adoption of this Statement resulted in an additional charge to income in 1992 of approximately \$40.3 million, after tax, (\$0.07 per share). Overall, net income for 1992 was reduced \$289.2 million as a result of adoption (\$0.49 per share).

The accumulated postretirement benefit obligation at December 31, 1992 is detailed as follows:

(DOLLARS OMITTED)	AMOUNT
Accumulated postretirement benefit obligation:	
Retirees.....	\$ 68,972
Fully eligible active plan participants.....	63,511
Other active participants.....	461,917
	594,400
Plan assets at fair value.....	(94,631)
Accumulated postretirement benefit obligation in excess of plan assets.....	499,769
Unrecognized net investment gains and changes in assumptions used to compute projected benefits.....	(31,106)
Accumulated postretirement benefit obligation, net.....	\$468,663

Net periodic postretirement benefit cost for 1992 included the following components:

(DOLLARS OMITTED)	AMOUNT
Service cost—benefits attributed to service during the period.....	\$ 29,481
Interest cost on accumulated postretirement benefit obligations.....	44,904
Expected earnings on plan assets.....	(9,069)
Net periodic postretirement benefit cost.....	\$ 65,316

Future benefit costs were forecast assuming an initial, annual increase in medical costs of 11.8%, decreasing to 8.5% by the year 2002 and consistently increasing at 8.5% per year thereafter. A one percentage point increase in the annual trend rate would have increased the total accumulated postretirement benefit obligation at December 31, 1992, by \$62.4 million and the aggregate of the

service and interest components of the net periodic postretirement benefit costs for 1992 by \$9.0 million.

The weighted average discount rate used to estimate the accumulated postretirement benefit obligation was 8.25%. The expected long-term rate of return on Plan assets is 9.5%. Plan assets consist primarily of publicly traded stocks and bonds. The Trust holding the Plan assets is not subject to income taxes. UPS's funding policy is consistent with relevant federal tax regulations. Accordingly, UPS contributes amounts deductible for federal income tax purposes.

Note 6 MANAGEMENT INCENTIVE PLANS

UPS maintains the UPS Managers Incentive Plan. Persons earning the right to receive awards are determined annually by either the Officer Compensation or the Salary Committees of the UPS Board of Directors. Awards consist primarily of UPS common stock and cash equivalent to the tax withholdings on such awards. The total of all such awards is limited to 15% of consolidated income before federal income taxes for the 12-month period ending each September 30, exclusive of gains and losses from the sale of real estate and stock of subsidiaries. In addition, the cumulative effect of a change in accounting principle was specifically excluded from the 1992 award calculation in accordance with a vote of shareowners. Amounts charged to operations were \$198,943,000, \$169,606,000, and \$180,965,000 during 1992, 1991, and 1990, respectively.

UPS maintains stock option plans. Originally, these plans were established to issue Book Value Shares. Book Value Shares were shares of UPS common stock with a stated value equal to the UPS book value per share as of the year end immediately preceding the date of option grant. Voting, dividends and liquidation rights for the Book Value Shares were the same as for other UPS common stock. UPS repurchased all Book Value Shares immediately after their issuance except that UPS deferred some repurchases from officers and directors for up to six months.

Except in the case of death, disability, or retirement, options are exercisable only during a limited period after the expiration of five years from the date of grant but are subject to earlier cancellation or exercise under certain conditions. The number of options and option prices for Book Value Shares exercised under the Plans were 4,611,372 and \$5.68 in 1992; 4,896,588 and \$5.47 in 1991; and 4,611,976 and \$5.36 in 1990. Compensation expense charged to operations related to exercise of these options was not material. No further shares may be issued under either the 1981 or 1986 plans. Options granted under the 1981 plan were either exercised or expired as of December 31, 1991.

Prior to issuing options for any Book Value Shares, the 1991 Plan was amended during 1992 to change it to a Current Price Plan. Under a Current Price Plan, options are granted to purchase shares of UPS common stock at the Current Price of UPS shares as determined by the Board of Directors on the date of option grant. Unlike Book Value Shares, the optionee may continue to hold the shares of common stock received on exercise, subject to the terms of the UPS Managers Stock Trust. Persons earning the right to receive stock options under the 1991 plan are determined each year by either the Officer

Compensation Committee or Salary Committee of the UPS Board of Directors. Options covering a total of 30,000,000 common shares may be granted during the five-year period ending in 1996.

Also during 1992, an amendment was made to the 1986 plan to allow options on Book Value Shares issued during the period 1988 through 1991 to be converted to Current Price options in the ratio of three common shares for five Book Value Shares. Substantially all holders of unexpired options for Book Value Shares elected to convert to options for common stock as of December 31, 1992. Following is an analysis of options for shares of common stock issued and outstanding:

STOCK OPTIONS	NUMBER OF SHARES
Converted at \$12.00 to \$15.25 per share	12,592,685
Granted at \$16.50 per share	4,259,826
Canceled	(55,777)
Outstanding at December 31, 1992	16,796,734
Exercisable at December 31, 1992	-

Current Price options converted from Book Value options were issued with exercise prices equal to the published price of UPS common stock as of the year-end immediately preceding the original date of grant. Options granted during 1992 have an exercise price equal to the current price of a share of UPS common stock at the date of grant.

The conversion of previously issued Book Value options resulted in a change for accounting purposes from a variable plan to a fixed plan. As a fixed plan, the difference between the exercise price and current price at the measurement date will be charged to operations over the remaining vesting periods of the options. Such charges will total approximately \$42,069,000 during the period 1993 through 1996. This amount is not expected to be materially different from what would have been charged under the variable Book Value Plan. Under current accounting rules, no additional compensation will be recorded for appreciation of converted options or for the issue of new options.

Note 7 INCOME TAXES

The provision for income taxes for the years ended December 31, consists of the following:

(DOLLARS OMITTED)	1992	1991	1990
Current:			
Federal	\$331,265	\$383,997	\$216,393
State	75,361	78,798	49,366
Total Current	406,626	462,795	265,759
Deferred:			
Federal	110,041	18,100	105,611
State	(12,444)	36,000	31,738
Total Deferred	97,597	54,100	137,349
Total	\$504,223	\$516,895	\$403,108

Income before income taxes and cumulative effect of a change in accounting principle includes losses of foreign subsidiaries of \$114,941,000, \$92,541,000, and \$51,192,000 for 1992, 1991, and 1990, respectively.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

A reconciliation of the statutory federal income tax rate to the effective income tax rate for the years ended December 31, consists of the following:

	1992	1991	1990
Statutory federal income tax rate	34.0%	34.0%	34.0%
Amortization of investment tax credits	(0.8)	(1.7)	(2.6)
Rate cost from carryback under income tax accounting principle	-	-	3.5
State income taxes (net of federal benefit)	5.1	6.8	5.3
Other	1.4	3.4	0.1
Effective income tax rate	39.7%	42.5%	40.3%

The tax effects of items included in the deferred tax provision for the years ended December 31, consist of the following:

(000'S OMITTED)	1992	1991	1990
Excess of tax depreciation over book depreciation	\$ 55,988	\$102,644	\$137,760
Differences in timing of deduction for certain accrued expenses	152,543	(22,646)	(32,828)
Other postretirement benefits not currently deductible	(25,009)	-	-
Amortization of investment tax credits	(14,541)	(22,430)	(26,080)
Rate cost from carryback under income tax accounting principle	-	-	34,480
Other	(71,384)	(3,468)	24,017
Total deferred tax provision	\$ 97,597	\$ 54,100	\$137,349

Note 8 OTHER ASSETS

Other assets as of December 31, consist of the following:

(000'S OMITTED)	1992	1991
Leveraged leases	\$320,616	\$333,074
Other long-term investments	47,858	26,740
Costs in excess of net assets acquired	129,602	97,711
	\$498,076	\$457,525

LEVERAGED LEASES

The net investment in leveraged leases as of December 31, consists of the following:

(000'S OMITTED)	1992	1991
Rentals receivable (net of nonrecourse debt payments)	\$ 239,670	\$ 253,200
Estimated residual values	110,838	110,838
Unearned income	(29,892)	(30,964)
Long-term investments in leveraged leases	320,616	333,074
Deferred income taxes	(262,117)	(280,535)
Deferred investment tax credits	(25,172)	(28,083)
Net investment in leveraged leases	\$ 33,327	\$ 24,456

Unearned income on each leveraged lease is amortized to provide an approximate level rate of return when compared to UPS's unrecovered net investment.

Note 9 DEFERRED TAXES, CREDITS AND OTHER LIABILITIES

Deferred taxes, credits and other liabilities as of December 31, consist of the following:

(000'S OMITTED)	1992	1991
Deferred federal and state income taxes	\$1,439,316	\$1,523,007
Deferred investment tax credits	36,304	50,845
Other credits and noncurrent liabilities	404,464	483,709
	\$1,880,084	\$2,057,561

Note 10 SEGMENT AND GEOGRAPHIC INFORMATION

UPS operates primarily in one industry segment, transportation services, which is comprised principally of domestic and international package delivery. Information about operations in different geographic segments for the years ended December 31, is shown below:

(000'S OMITTED)	1992	1991	1990
Domestic:			
Revenue	\$14,721,686	\$13,694,728	\$12,655,120
Income before income taxes	\$ 1,545,484	\$ 1,470,645	\$ 1,265,946
Identifiable assets	\$ 7,873,398	\$ 7,982,387	\$ 7,492,055
Foreign:			
Revenue	\$ 1,796,935	\$ 1,325,102	\$ 951,224
Loss before income taxes	\$ (276,189)	\$ (253,580)	\$ (266,062)
Identifiable assets	\$ 1,164,419	\$ 876,174	\$ 684,001
Consolidated:			
Revenue	\$16,518,621	\$15,019,830	\$13,606,344
Income before income taxes	\$ 1,269,295	\$ 1,217,065	\$ 999,884
Identifiable assets	\$ 9,037,817	\$ 8,858,561	\$ 8,176,056

Foreign operations include shipments that either originate in or are destined to foreign (non-U.S.) locations. Foreign revenues attributable to shipments that originated in the U.S. totalled \$255,666,000, \$190,568,000 and \$135,519,000 in 1992, 1991, and 1990, respectively.

SELECTED FINANCIAL DATA

SELECTED INCOME STATEMENT DATA YEARS ENDED DECEMBER 31,

(000'S OMITTED EXCEPT PER SHARE AMOUNTS)	1992	1991	1990	1989	1988
Revenue	\$ 16,518,621	\$ 15,019,830	\$ 13,606,344	\$ 12,357,918	\$11,032,075
Operating expenses.....	(15,240,837)	(13,768,574)	(12,554,167)	(11,142,648)	(9,956,838)
Interest income	22,433	27,572	22,278	22,793	33,208
Interest expense	(41,918)	(51,794)	(71,999)	(14,833)	(5,443)
Miscellaneous-net	10,996	(9,969)	(2,572)	(20,122)	(16,950)
Income taxes	(504,223)	(516,895)	(403,108)	(509,684)	(327,329)
Income before cumulative effect of a change in accounting principle.....	765,072	700,170	596,776	693,424	758,723
Cumulative effect of a change in the method of accounting for postretirement benefits other than pensions.....	(248,905)	-	-	-	-
Net income	\$ 516,167	\$ 700,170	\$ 596,776	\$ 693,424	\$ 758,723
% of revenue after cumulative effect of a change in accounting principle	3.1	4.7	4.4	5.6	6.9
Per share amounts: ⁽¹⁾					
Income before cumulative effect of a change in accounting principle	\$ 1.29	\$ 1.14	\$ 0.95	\$ 1.07	\$ 1.17
Cumulative effect of a change in the method of accounting for postretirement benefits other than pensions	(0.42)	-	-	-	-
Net income per share	\$ 0.87	\$ 1.14	\$ 0.95	\$ 1.07	\$ 1.17
Dividends paid per share	\$ 0.50	\$ 0.48	\$ 0.48	\$ 0.48	\$ 0.45

SELECTED BALANCE SHEET DATA DECEMBER 31,

(000'S OMITTED)	1992	1991	1990	1989	1988
Working capital (deficiency).....	\$ 61,687	\$ 172,635	\$ 68,328	\$ 199,112	\$ (418,926)
Long-term debt	\$ 862,378	\$ 830,634	\$ 854,687	\$ 848,036	\$ 140,009
Total assets	\$ 9,037,817	\$ 8,858,561	\$ 8,176,056	\$ 7,888,127	\$ 6,703,626

⁽¹⁾All per share amounts have been restated to reflect the four for one stock split.

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATION

OPERATIONS

1992 COMPARED TO 1991

Revenue increased by \$1.5 billion, or 10.0%, with \$1.03 billion coming from increased domestic revenue and \$472 million coming from increased international revenue. Increased domestic revenue resulted primarily from favorable changes in volume, rates and product mix. Domestic delivery volume increased 1.0%, while increases in published rates during the first quarter of 1992 ranged from 2.6% to 4.9% for domestic air shipments and averaged approximately 5.0% for domestic ground shipments. International revenue increased primarily from higher volume, which was up 21.4% as a result of the Company's efforts to expand its international operations.

Operating expenses increased by \$1.47 billion, or 10.7%. The increase is primarily due to the additional delivery volume along with increases in average pay rates and employee benefits. The Company's labor agreement with the Teamsters Union expires in mid-1993 and will be renegotiated during the second quarter. As discussed in a following section titled "Change in Accounting Method" as well as Note 5 to the consolidated financial statements, the Company adopted Statement of Financial Accounting Standards No. 106 during 1992. In addition to the one-time cumulative effect discussed below, 1992 operating expenses were charged an additional \$65 million as a result of adoption.

Operating profit for the period increased by \$27 million, or 2.1%. This results primarily from the increase in domestic revenues, partially offset by increased losses in international operations.

Income before income taxes and cumulative effect of a change in accounting principle ("pre-tax income") increased \$52 million, or 4.3%. Domestic pre-tax income was up \$75 million over the prior year as a result of higher operating profit. This increase was offset by an increase in the international pre-tax loss of \$23 million. Although the international loss trend in total is negative, the operating margin (defined here as operating expenses plus other income and expense, net, as a percent of revenue) improved to 115.4% in 1992 from 119.1% in 1991. UPS is making continual efforts to further improve the international operating margin; however, UPS expects that the costs of operating its international business will continue to exceed revenue in the near future.

Income before cumulative effect of a change in accounting principle increased by \$65 million, or 9.3%. The increase resulted primarily from higher operating profit and a decrease in the effective income tax rate.

The cumulative effect of a change in the method of accounting for postretirement benefits other than pensions is discussed in a following section titled "Change in Accounting Method" as well as Note 5 to the consolidated financial statements.

1991 COMPARED TO 1990

Revenue increased by \$1.41 billion, or 10.4%, with \$1.04 billion coming from increased domestic revenue and \$374 million coming from increased international revenue. Increased domestic revenue resulted primarily from favorable changes in rates and product mix. Increases in published rates during the first quarter of 1991 ranged from 8.3% to 9.9% for domestic air shipments and averaged approximately 5.9% for domestic ground shipments. International revenue increased primarily from higher volume, which was up 22.5% as a result of the Company's efforts to expand its international operations.

Operating expenses increased by \$1.21 billion, or 9.7%. The increase is primarily due to the additional international delivery volume; increases in average pay rates and employee benefits; increased prices of materials and services purchased; and costs associated with the relocation of corporate headquarters to Atlanta, Georgia. Offsetting the cost increases, the unit cost of fuel dropped significantly during 1991.

Operating profit for the period increased by \$199 million, or 18.9%. This results primarily from the increase in domestic revenues.

Income before income taxes and cumulative effect of a change in accounting principle ("pre-tax income") increased \$217 million, or 21.7%. Domestic pre-tax income was up \$205 million over the prior year as a result of higher operating profit. In addition, the international, pre-tax loss decreased by \$12 million as operating margin (defined here as operating expenses plus other income and expense, net, as a percent of revenue) improved to 119.1% in 1991 from 128.0% in 1990.

Income before cumulative effect of a change in accounting principle increased by \$103 million, or 17.3%. The increase resulted primarily from higher operating profit.

LIQUIDITY AND CAPITAL RESOURCES

UPS believes that its internally generated funds and revolving credit facility will provide adequate sources of liquidity and capital resources to meet its expected future short-term and long-term needs for the operation of its business, including anticipated capital expenditures of \$1.3 billion for land, buildings, equipment and aircraft in 1993, as well as commitments for aircraft purchases through 2002. UPS may also explore various financing alternatives during 1993, including drawing on its short-term borrowing arrangements, if necessary.

An agent for the United States Internal Revenue Service ("IRS") has asserted in a report that UPS is liable for additional tax and possible penalties for the 1984 tax year. The assertion is based in large part on the theory that UPS is liable for tax on income of Overseas Partners Ltd. ("OPL"), a Bermuda company, which has reinsured excess value package insurance purchased by UPS's customers from unrelated

insurers. The adjustments sought by the agent relating to package insurance are based on a number of inconsistent theories and range from \$7.9 million of tax to \$45.5 million of tax and estimated penalties.

Management believes that the IRS positions are without merit and the eventual resolution of this matter will not have a material impact on the Company. No assessment has been made by the IRS with respect to 1984, and the Company is pursuing a protest before the IRS's Appeals Division against the imposition of any additional tax liability. The matter is awaiting a hearing before the IRS Appeals Division. The IRS has not proposed assessments for years subsequent to 1984, although the IRS may take positions similar to those in the report described above for periods after 1984.

CHANGE IN ACCOUNTING METHOD

Effective January 1, 1992, UPS adopted the provisions of Financial Accounting Standards Board Statement of Financial Accounting Standards No. 106, "Employers' Accounting for Postretirement Benefits Other Than Pensions." This Statement requires accrual of postretirement benefits, which include health care benefits, during the years an employee provides service.

The effect of adoption was to record a one-time charge of \$248.9 million, representing the cumulative effect of the change as of January 1, 1992. In addition to the cumulative effect, 1992 operations were charged \$40.3 million, after tax, for current costs associated with application of the Statement. Additional information regarding this change in accounting method is included in Note 5 to the consolidated financial statements.

FUTURE ACCOUNTING CHANGES

In February 1992, the Financial Accounting Standards Board ("FASB") issued Statement of Financial Accounting Standards No. 109, "Accounting for Income Taxes." This Statement will be adopted by UPS in 1993. UPS does not expect implementation of the Statement to have a material effect on net income or shareowners' equity.

In November 1992, the FASB issued Statement of Financial Accounting Standards No. 112, "Employers' Accounting for Post-employment Benefits." This Statement requires employers to recognize an obligation for certain postemployment benefits when certain conditions are met. The impact of the new standard has not been fully determined; however, the change is not expected to have a material effect on net income or shareowners' equity. The Statement must be adopted by 1994, with earlier application encouraged. UPS has not decided whether it will adopt the Statement during 1993 or 1994.

UPS CAPITAL STOCK

PRICES PAID FOR UPS CAPITAL STOCK

UPS has a preferential right to purchase its own shares. Its Capital Stock is not listed on a securities exchange and has not been sold in the organized over-the-counter markets. UPS, itself, has been the principal purchaser of UPS stock, which it has used primarily for awards under the UPS Managers Incentive Plan and the UPS Stock Option Plans ("the Plans"). UPS notifies its shareowners periodically of its willingness to purchase a limited number of shares at specified prices determined by the Board of Directors.

In determining the share price, the Board considers a variety of factors, including past and current earnings, earnings estimates, the ratio of UPS Capital Stock to debt of UPS, other factors affecting the business and long-range prospects of UPS, and general economic conditions, as well as opinions furnished from time to time by investment counselors acting as independent appraisers.

In its determination of the prices to be paid for UPS stock, the Board has not followed any predetermined formula. It has considered a number of formulas commonly used in the evaluation of securities of closely held and publicly held companies, but its decisions have been based primarily on the judgment of the Board of Directors as to the long-range prospects of UPS rather than what the Board considers to be short-range trends relating to UPS or to the values of securities generally. Thus, for example, the Board has not given substantial weight to short-term variations in average price-earnings ratios of publicly traded securities, which at times have been considerably higher, and at other times considerably lower, than those at which UPS has offered to purchase its shares. However, the Board's decision as to price does take into account factors generally affecting the market prices of publicly traded securities, and prolonged changes in those prices could have an effect on the prices offered by UPS.

One factor in determining the prices at which securities trade in the organized securities markets is that of supply and demand. When demand is high in relation to the shares that investors seek to sell, prices tend to increase, while prices tend to decrease when demand is low in relation to shares being sold. To date, the UPS Board of Directors has not given significant weight to supply-demand considerations in determining the prices to be paid by UPS for its shares. UPS has a need for some of the shares which it has been able to acquire for purposes of awards under the Plans, and eligible managers and supervisors have purchased some of the other available shares. In 1991 and 1992, shares in excess of current requirements for the Plans were constructively retired (see the Statement of Consolidated Shareowners' Equity and Note 1 to the Consolidated Financial Statements).

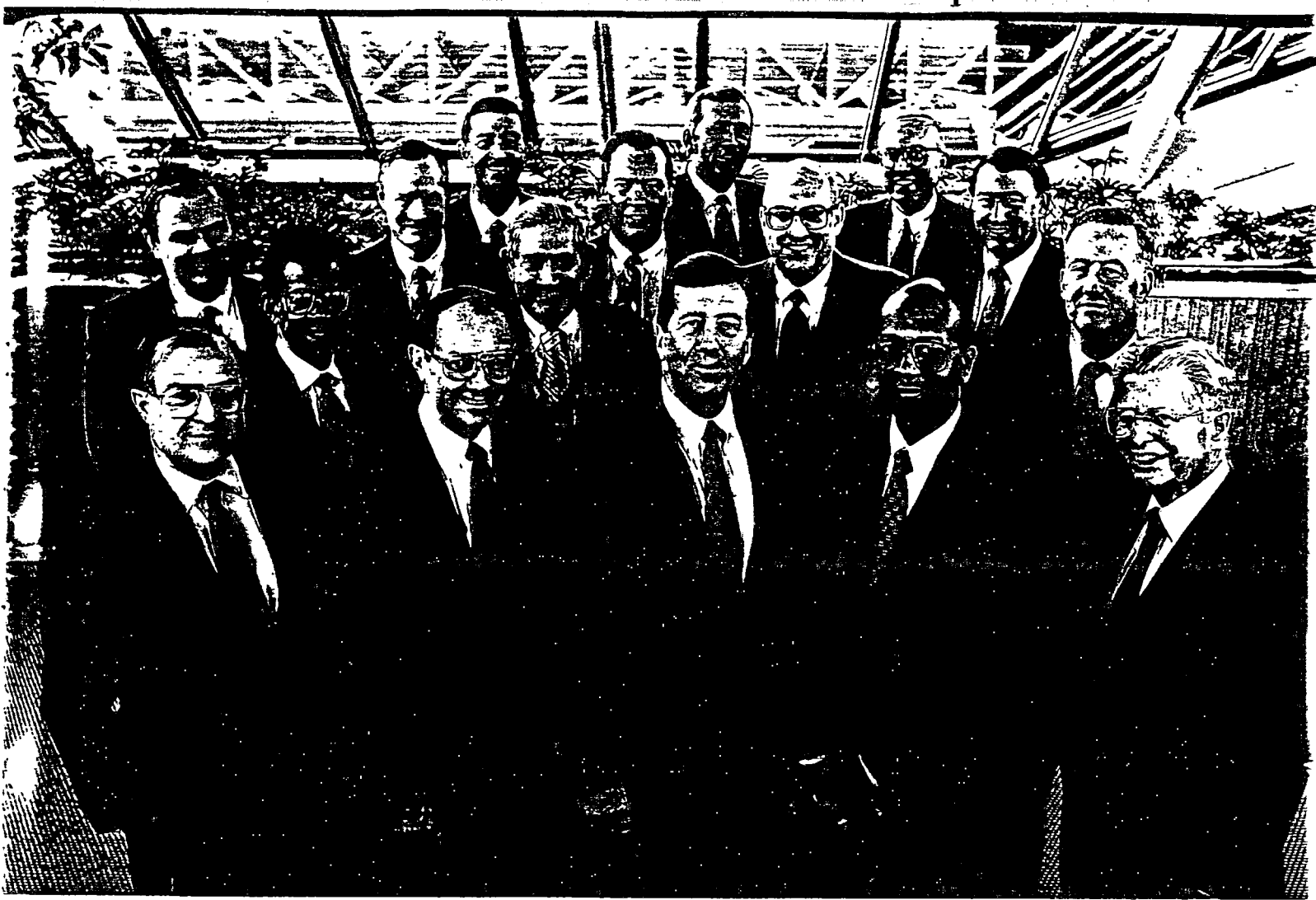
UPS intends to continue its policy of purchasing shares when offered by shareowners. However, there can be no assurance of continuation of that policy. The feasibility of purchases by UPS and the price at which shares can be purchased are both subject to the continued maintenance by UPS of satisfactory earnings and financial condition. Hence, both the salability of UPS shares and the price at which they can be sold would be adversely affected by a continuous decline in UPS earnings or by unfavorable changes in financial position and might be adversely affected by decisions of shareowners to sell considerably more shares than the Board considers necessary for the ultimate purpose of making awards under the Plans.

The prices at which UPS has published notices of its willingness to purchase shares since January 1991 are as follows (all amounts have been restated to reflect the four for one, common stock split discussed in the notes to the financial statements):

1991 DATES	PRICE
January 1 to February 21	\$15.25
February 22 to August 21	\$15.50
August 22 to November 18	\$15.75
November 19 to February 20, 1992	\$16.00
1992 DATES	PRICE
February 21 to May 21	\$16.50
May 22 to August 26	\$17.25
August 27 to November 19	\$18.00
November 20 to February 18, 1993	\$18.50

On February 19, 1993, UPS expressed its willingness to purchase shares at \$18.75 per share, which is still the price at the date of this report.

UPS, from time to time, has waived its right of first refusal to purchase its shares in order to permit managers and supervisors to purchase shares at the same price as UPS was willing to pay. The grant of waiver in these cases has been subject to those needs. Persons who purchase shares in this manner are required to deposit them in the UPS Managers Stock Trust.



Pictured at their final 1992 quarterly meeting in a downtown Little Rock, Ark. hotel are Board of Directors members (l.-r.), front - Robert M. Teeter, Donald W. Layden, John W. Alden, Calvin E. Tyler, Jr. and Paul Oberkotter; 2nd row - William H. Brown, III, Carl Kaysen, Kent C. Nelson and John W. Rogers; 3rd row - Gary E. MacDougall, Joseph R. Moderow, Edwin A. Jacoby and Charles L. Schaffer; 4th row - John J. Kelley, James P. Kelly and Victor A. Pelton.

40% OF ACTIVE SHAREOWNERS BUY STOCK THROUGH PAYROLL DEDUCTION

Two years ago, we introduced our payroll deduction plan to make it easier for all levels of active shareowners to purchase UPS stock. Growing numbers of shareowners have taken advantage of that plan. Last year, 10,786 managers and supervisors purchased over 4.7 million shares of UPS stock.

In addition to purchases through the payroll deduction plan, another 3.8 million shares of UPS stock were bought by 5,934 active management people.

Our policy of ownership and management, we believe, is responsible for much of the success UPS has attained over the years. Our business is manager-owned, and active management remains in the hands of shareowners. We want to continue to be owned by our managers and managed by our owners.

With minor exceptions, all of our stock is owned by or held for the benefit of our nearly 27,000 managers and supervisors active in operating our company, or by former employees, or their families, their estates or heirs, or by charitable foundations established or supported by these people.

DIRECTORS

John W. Alden
Senior Vice President

William H. Brown, III
*Partner in the law firm of
Schnader, Harrison, Segal & Lewis*

Edwin A. Jacoby
Chief Financial Officer

Carl Kaysen
*David W. Skinner Professor of
Political Economics at the Massachusetts
Institute of Technology*

James P. Kelly
Chief Operating Officer

John J. Kelley
Senior Vice President

Donald W. Layden
Senior Vice President

Gary E. MacDougall
*Former Chairman of
Mark Controls Corporation*

Joseph R. Moderow
Senior Vice President

Kent C. Nelson
Chairman and Chief Executive Officer

Paul Oberkotter
Former Chairman

Victor A. Pelson
*Group Executive, AT&T
Communications Services Business*

John W. Rogers
Former Chairman

Charles L. Schaffer
Senior Vice President

Robert M. Teeter
President of Coldwater Corporation

Calvin E. Tyler, Jr.
Senior Vice President

OFFICERS AND MANAGEMENT COMMITTEE

*The following corporate officers are also members of the
UPS Management Committee. This committee has the
responsibility for the overall day-to-day management of
our business. Ed Schroeder and Bud Yard were named
to the committee since our 1991 Shareowners Report
was published.*

John W. Alden
*Senior Vice President
Business Development*

Francis J. Erbrick
*Senior Vice President
Information Services and Domestic Systems*

Don R. Fischer
*Senior Vice President
International Systems*

Edwin A. Jacoby
*Senior Vice President, Finance,
and Treasurer*

John J. Kelley
*Senior Vice President
Human Resources*

James P. Kelly
*Senior Vice President
Operations*

Donald W. Layden
*Senior Vice President
International Operations*

Joseph R. Moderow
*Senior Vice President, Legal & Public Affairs,
and Secretary*

Kent C. Nelson
Chairman and Chief Executive Officer

Richard O. Oehme
*Senior Vice President
Air Operations*

Charles L. Schaffer
*Senior Vice President
Engineering*

Edward L. Schroeder
*Senior Vice President
International Operations*

Calvin E. Tyler, Jr.
*Senior Vice President
Operations*

Clinton L. Yard
*Senior Vice President
Operations*

REGION MANAGERS

*Our package delivery activities are
divided among regions, each headed by the
following region managers.*

Joseph L. Aquino
East

Joseph R. Blanchard
South Central

John J. Bouhan
Southeast

Michael W. Briggs
Northwest

John J. Casey
Pacific

Ronald L. Clevenger
East Central

Joseph A. Farinacci
Southwest

John J. Fitzgerald
Asia Pacific

William W. Gaillard
Northeast

Ralph E. Goetz
Americas

Larry V. Grizzle
Midwest

John R. Lockhart
Europe

Larry L. Long
North Central

Christopher Mahoney
Canada

Gerald F. McGuire
Central Europe

William Weyrauch
West

1992 Honors and Achievements



ENERGY CONSERVATION AWARD

The National Energy
Resources Organization

(NERO) selected UPS as winner of its 1992 Energy Conservation Award. NERO, a Washington, D.C. nonprofit group, honors a person or organization each year for having made the greatest contribution to conserving energy resources. NERO cited UPS's aggressive efforts to reduce petroleum usage by demonstrating the feasibility and merits of using alternative fuels.

"MOST ADMIRED"

TRANSPORTATION COMPANY

For the 10th consecutive year, UPS has been named the "most admired" corporation in the transportation industry in *Fortune* magazine's annual poll of senior corporate managers. We scored our highest rating ever, which moved us up in the "most admired" listing of all corporations from 23rd to 17th place. Companies are ranked on attributes such as innovativeness, quality of products/services, quality of management and financial soundness.



"BEST NEW SERVICE"

MAST magazine presented UPS with its annual Industry Choice

Award for introducing what it considered the "Best New Service" of 1992. The award committee recognized UPS Delivery Confirmation Service as the best example of a service that helps shippers improve operations and deliveries. We won the same award last year for our UPS Hundredweight Service.

VISION AWARD FOR COMMUNITY INTERSHIPS

UPS received the Vision Award by the *Personnel Journal* at the trade publication's annual Optimas awards ceremony. The award recognizes the company's vision in establishing its ongoing Community Internship Program 26 years ago. More than 800 UPS managers have participated in the program, in which they spend three weeks observing and participating in activities of a community outreach organization.



"BEST SALES FORCE"

UPS's sales force was selected for a second time as the best in the shipping and delivery services industry by *Sales & Marketing Management* magazine. Our sales force was recognized for its ability to work closely with customers, add new markets and increase international business.

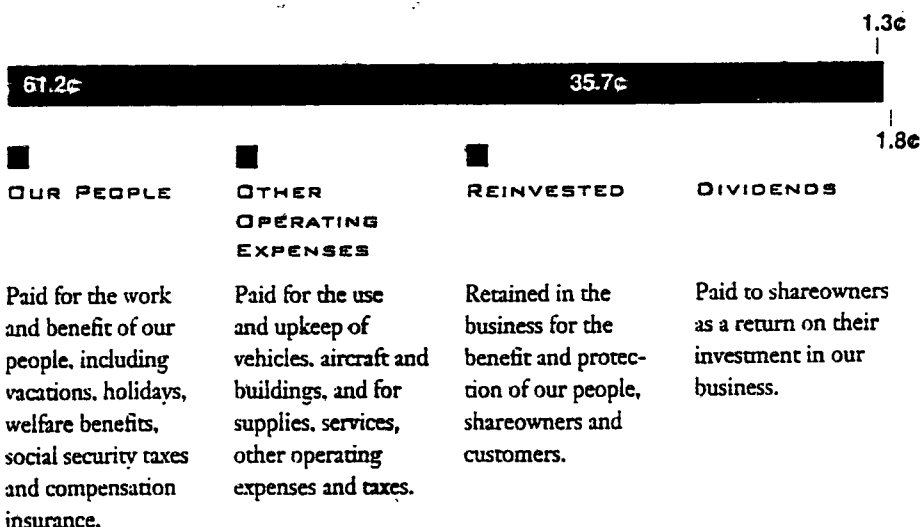
WORLD CLASS QUALITY AWARD

In an annual survey conducted by Total Research Co., consumers ranked UPS fourth in brand quality, behind only Disney World/Disneyland, Kodak and Hallmark in that order. We received a 1992 Equitrend World Class Quality Award for placing in the top 10. In the survey, 2,000 consumers are asked to rank 156 brand names in terms of quality.

"VISIONARY OF THE YEAR" IN TECHNOLOGY

Communications Week, the leading telecommunications magazine, awarded UPS the Visionary of the Year award for 1992. The award honors the company that has shown the ability to see the future and lead the telecommunications network industry toward it.

How Our
1992 Dollar
Was Used



This entire report is printed on recycled paper

©1993, United Parcel Service of America, Inc.